



REPUBLIC OF CROATIA

**PARTNERSHIP AGREEMENT FOR THE
EUROPEAN STRUCTURAL AND
INVESTMENT FUNDS IN THE EU FINANCIAL
PERIOD 2014-2020**

(OFFICIAL PROPOSAL_EN_2014HR16M8PA001.1.1)

**STIMULATING SMART, INCLUSIVE AND
SUSTAINABLE GROWTH**

The Partnership Agreement for the European Structural and Investment Funds in the EU Financial Period 2014-2020 was prepared by the Ministry of Regional Development and EU Funds, with contributions from the Ministry of Agriculture and the Thematic Working Groups, on behalf of the Coordination Committee for the Preparation of Programming Documents for the EU Financial Period 2014-2020.

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The Partnership Agreement (PA) for the financial period of the EU from 1st January 2014 to 31st December 2020 identifies the most important developmental challenges that Croatia is facing and defines the country's main funding priorities in the context of usage of European Structural and Investment (ESI) Funds. The PA describes how the ESI Funds received by Croatia will contribute to the fulfilment of the Europe 2020 Strategy and the objectives of EU policies.

The PA also incorporates key issues addressed in the Economic Programme / National Reform Programme (NRP) and the related Staff Working Document prepared by the European Council. In addition, the PA outlines the conditions for the successful and efficient use of funds.

The European Commission (EC) shall approve the PA following consultations with the Croatian Government. The Croatian Government shall submit to the EC the final draft PA in April 2014.

The PA is being prepared and coordinated by the Ministry for Regional Development and EU Funds (MRDEUF). Line ministries, local and regional representatives, representatives of business organisations and chambers as well as various institutions that have an interest in the ESI Funds and civil society organisations are directly participating in the process of drafting programming documents for the 2014-2020 period through six Thematic Working Groups (TWGs). A high level Government body, the Coordination Committee for the Preparation of Programming Documents for the Period 2014-2020, is stirring the overall programming process.

The structure and the content of the PA follows the requirements of the Common Provisions Regulation (CPR), as well as the document issued by the EU Commission titled "Draft Template and Guidelines on the Content of the Partnership Agreement", version received from the EC on February 5 2014".

The planning of the PA and programmes – bearing in mind the principles of multi-level governance and partnership – is taking place in three phases:

1. In the first phase, the planning of the main elements of the PA has necessarily been a top-down process, based on the development needs defined by the TWGs (including those contained in the national strategies), and on the planning guidelines, templates, and comments of the EC. In this phase, the intervention logic tables developed together by the line ministries, which form the basis of the PA have been subject to expert consultation in reference to the identification of main development challenges and needs, the identification of Croatian specific growth potentials, the definition of expected results to be achieved and key actions which need to be implemented in order to achieve those results. The decision on the indicative allocation of resources and the number and content of Operational Programmes (OPs) was taken by the Coordination Committee. In this phase the involvement of partners, which are not directly involved in the drafting process, took place through the first Partnership Consultations held in June 2013 within the annual "Towards the European Funds" conference, mainly in the terms of their input for key preparatory national planning documents. Web consultations were also held, where the general public had a chance to give its opinion on development priorities and specific objectives through an on-line survey. MRDEUF collected a total of 3,564 surveys with the highest interest of the public in Education (see heading *Arrangements for the partnership principle*). These opinions were taken into account when selecting the Investment priorities and in shaping the specific objectives at OP-level.
2. In the second phase – given recent progress made in planning of the OPs – the drafting of the PA and the OPs continued. As part of the preparation for the second Partnership Consultations, a Consultation document was prepared by MRDEUF outlining the overall strategy and investment areas for the 2014-2020 EU period. MRDEUF opened an on-line public consultation process, which was open for 2 months (until January 20th 2014) inviting

public responses to the presented investment strategy for the ESI Funds. In parallel, the Ministry of Agriculture was receiving public remarks on the draft Rural Development Programme 2014-2020 concerning the use of the European Agricultural Fund for Rural Development (EAFRD). The process of preparing the OP for the European Maritime and Fisheries Fund (EMFF) was intensified following the November 2013 approval of the Operational Programme for Fisheries for the 2007-2013 period. Some of the key elements have been discussed at the Partnership event in Zagreb on December 4-6th 2013. The planning documents shall be finalized on the basis of further expert consultations and input, followed by a broad partnership input involving all relevant economic, social, environmental and territorial actors that are not included in the formal preparation stages and approval process of the various stages of programming documents. Special consultations are also planned at the beginning of 2014 with the Croatian Parliament. In this second phase, draft and summary programming documents shall be made publicly available through the Internet and to all partners involved, as well as sufficient time to give (focused) comments, which will then be discussed at the partnership event(s) and included as final inputs in the planning documents.

3. In parallel, the Coordination Committee shall discuss the draft documents, including feedback and inputs from various stakeholders in the process, and decide on the final content of the PA and OPs. The final draft PA and OPs shall be submitted to the EC for interservice consultations, and the formal documents submitted (following the approval of the Croatian Government) within the deadlines outlined in the Common Provision Regulation (CPR), no later than 22 April 2014 for the PA and for the OPs no later than 3 months from the official submission of the PA. The official submission of the RDP shall also follow this timeline, while the OP EMFF shall be submitted only after approval of the EMFF Regulation at EU level.

1. ARRANGEMENTS TO ENSURE ALIGNMENT WITH THE UNION STRATEGY FOR SMART, SUSTAINABLE AND INCLUSIVE GROWTH AS WELL AS THE FUND SPECIFIC MISSIONS PURSUANT TO THEIR TREATY-BASED OBJECTIVES, INCLUDING ECONOMIC, SOCIAL AND TERRITORIAL COHESION - ARTICLE 14 (1)(A) CPR

1.1 An analysis of disparities, development needs, and growth potentials with reference to the thematic objectives and the territorial challenges and taking account of the National reform programme, where appropriate, and relevant country-specific recommendations adopted in accordance with Article 121(2) of the Treaty on the Functioning of the European Union and relevant Council recommendations adopted in accordance with Article 148(4) of the Treaty on the Functioning of the European Union

Croatia is located in Central and South-East Europe. Its land territory covers 56,594 square km bordering the EU countries Slovenia (to the North-West) and Hungary (to the North-East), as well as non-EU countries Serbia (to the East), Bosnia Herzegovina and Montenegro (to the South-East). Croatia's territorial waters encompass 18,981 square km in a 12 nautical miles wide zone (sharing a maritime boarder with Italy to the South-West) and its internal waters cover additional 12,498 square km. Croatia's Adriatic Sea mainland coast is 1,880 km long [1].

The permanent population of Croatia reached 4.389,2 million in January 1st 2012. In 2011, the population density was 75.7 inhabitants per square km and the overall life expectancy in Croatia at birth was 76.9 years [2]. Croatia is inhabited mostly by Croats (90.4%), while minorities include Serbs (4.4%) and 21 other ethnicities (less than 1% each) recognized by the Croatian Constitution. Croatia is divided into 20 counties and the capital city of Zagreb, which recently have been grouped in two statistical regions NUTS 2 - Continental Croatia and Adriatic Croatia. The counties sub-divide into 127 towns and 429 municipalities. The average urbanisation rate in Croatia is 56% with a growing urban population and shrinking rural population. The largest city and Croatia's capital is Zagreb, with an urban population average of 795,000. The populations of Split, Rijeka and Osijek also exceed 100,000 and ten more cities in Croatia have populations over 35,000.

Croatia became the 28th Member State of the European Union (EU) on July 1st 2013.

1.1.1 Key characteristics of Croatia's productive system and assets

According to The World Bank, Croatia can be considered a **high-income market economy** [3]. From 2002 until 2012, Croatia's GDP growth rate averaged 1.8%, reaching an all-time high of 5.4% in 2003 and a record low of -6.9% in 2009 (Table 1). Croatia began an economic transition in the late 1980s. After 2000, the restructuring of the Croatian economy with the ultimate goal of joining the EU has led to steady growth rates.

In 2012, the Croatian nominal GDP stood at EUR 44 billion (0.3% of EU-27 total), while GDP per capita in purchasing power parity was EUR 10,300 (62% of the EU-27) [4]. Croatia's median equivalent household income tops average Purchasing Power Standard of the ten countries that joined the EU in 2004, while trailing the EU average.

According to 2012 estimates, economic output was dominated by the service sector, which accounted for 62.2% of GDP, followed by the industrial sector with 33.1% and agriculture accounting for 4.7% of GDP. Metal processing, food processing, pharmaceuticals, electronics, chemicals and timber industry, although declining in recent years, lead the industry. In 2012, Croatian exports in goods were valued at EUR 9.6 billion, with EUR 16.2 billion worth of imports of goods. The goods trade deficit was almost fully compensated by trade in service (export of services amounted to EUR 9.3 billion, while import of services was valued at EUR 2.9 billion) [5]. The largest trading partner to Croatia is the EU, most notably in services.

Table 1: Main macroeconomic indicators of the Croatian economy

	2008	2009	2010	2011	2012
GDP, current prices (million EUR) ¹	47,538.3	44,778.3	44,423.4	44,383.8	43,903.9
GDP real growth rates, % ²	2.1	-6.9	-2.3	0.0p	-2.0p
Industrial production volume indices (2005=100) ³	110.6	100.4	99.0	97.8	92.4
Gross Fixed Capital Formation (% of GDP) ⁴	27.4	24.5	20.8	19.2 ^p	18.4 ^p
HICP, annual average rate of change ⁵	5.8	2.2	1.1	2.2	3.4
Current account balance (% of GDP, 3 year average) ⁶	-7.5	-6.9	-4.8	-2.2	-0.5
Direct investments flow (million EUR) ⁷	133	886	-121	25	-79
General Government deficit/surplus (% of GDP) ⁸	-	-5.3	-6.4	-7.8	-5.0
General government gross debt (% of GDP) ⁹	-	36.6	44.9	51.6	55.5
Unemployment rate, % ¹⁰	8.4	9.1	11.8	13.5	15.9

Tourism dominates the Croatian service sector and was estimated at 15.4% of Croatian GDP in 2012 [6]. Annual tourist industry income for 2012 was estimated at EUR 6,83 billion. Its positive effects are felt throughout the Croatian economy in terms of increased business volume observed in retail business, processing industry orders and summer seasonal employment. The tourist industry is considered an export business, because it significantly reduces Croatia's external trade imbalance. The bulk of the tourist industry is concentrated along the Adriatic Sea coast, offering services ranging from mass tourism to catering and various niche markets, the most significant being nautical tourism and cultural tourism. Inland areas offer mountain resorts, agro-tourism and wellness (spas). Zagreb is also a significant tourist destination, rivalling major coastal cities and resorts. There are seven UNESCO's World Heritage Sites in Croatia and the country is rich in natural values.

The highlight of recent infrastructure developments is the rapidly developed **motorway network**. By 2013 Croatia had completed 1,254 kilometres of motorways, connecting Zagreb to most other regions and following various European routes and four pan-European corridors. The busiest motorways are the A1, connecting Zagreb to Split, and the A3, passing east–West through Northwest Croatia and Slavonia.

Croatia has an extensive **rail network** spanning 2,722 kilometres, including 985 kilometres of electrified railways (36.1%) and 254 kilometres of double track railways. The most significant railways are found within the Pan-European transport corridors V Branch B and X connecting Rijeka to Budapest (HU) and Ljubljana (SLO) to Belgrade (SER), both via Zagreb. There are international airports in Zagreb, Zadar, Split, Dubrovnik, Rijeka, Osijek and Pula. The busiest cargo seaport is the Port of Rijeka and the busiest passenger ports are Split and Zadar.

¹ Source: Eurostat (code: tec00001)

² Source: Eurostat (code: tec00115)

³ Source: Croatian Bureau of Statistics, Yearbook 2013

⁴ Source: Eurostat (code: tec00011)

⁵ Source: Eurostat (code: prc_hicp_aind)

⁶ Source: Eurostat (code: tipsbp10)

⁷ Source: Eurostat (code: bop_fdi_flow_r2)

⁸ Source: Eurostat (code: tec00127)

⁹ Source: Eurostat (code: tsdde410)

¹⁰ Source: Eurostat (code: tsdec450)

There are 622 kilometres of crude oil pipelines in Croatia, connecting the Port of Rijeka oil terminal with refineries in Rijeka and Sisak, as well as several transshipment terminals. The system has an installed capacity of 20 million tons per year.

Croatian production of **energy sources** covers 67.7% of nationwide natural gas demand and 19% of oil demand. In 2012, 54% of Croatia's primary energy production structure comprised use of natural gas, with renewable energy sources (28%, consisting of hydro-power and biomass and renewable waste) and crude oil (14.5%). Croatia's imports of energy exceeded its exports by 4.7 million of oil equivalents (toe) in 2012. Its net imports of petroleum products reached 1.2 million toe, while net imports of solid fuels, gas and electricity were all between 0.6 and 0.8 million toe. Regarding renewable energy Croatia was a net exporter of 0.2 million toe. Compared with EU-27 net imports, Croatia's net imports of gas were relatively low and its net imports of electricity were relatively high (5th highest of all EU-28).

Due to its specific geographical position, and its characteristic ecological, climatic and geomorphologic conditions, Croatia is one of the richest European countries in terms of **biodiversity**. There are four types of bio-geographic regions in Croatia: Mediterranean along the coast and in its immediate hinterland, Alpine in the elevated Lika and Gorski Kotar, Pannonian along the Drava and Danube and Continental in the remaining areas. There are 419 protected natural areas in Croatia encompassing 8.56% of the country [7]. There are almost 40,000 known species in Croatia, and the total number of species is estimated to be between 50,000 and 100,000.

Because of the Homeland War there are numerous **leftover minefields**, largely tracing former front lines. Mine contamination in Croatia is a problem of both stability and social inclusion, as well as of economic development. Suspected minefields cover 613.6 square kilometres of Croatian territory [8]. Of that, it is estimated that half is actually mine polluted. A closer look at the mine suspected territory reveals the following: forests make out 67%, agriculture lands 19%, karst and wetlands the remaining 14% [9]. Direct yearly loss to the economy, a result of mine pollution in the forestry sector, is estimated at EUR 33 million, while for the agricultural sector it is estimated at EUR 15 million. For a country emerging from a war devastated and impoverished economy, Croatia has been a positive example in terms of taking financial responsibility for demining its own territory [10]. Further efforts in this area would mean the release into the economy of blocked and badly needed resources necessary for the development of a viable economy and inclusive society.

1.1.2 Key challenges for the economy and structural reforms agenda

Croatia experienced an abrupt slowdown in the economy in 2008 and has yet to recover. Difficult problems, including a high and persistent unemployment rate (the overall unemployment rate in Croatia has more than doubled since 2008 reaching 17.6% in 2013), declining competitiveness and narrowing export base (Croatia is ranked 75th out of 148 countries in the World Economic Forum Global Competitiveness Index 2013-2014), pronounced regional differences in terms of income and standards of living mostly due to the consequences of the war, poor connectivity and low economic activity, including a large share of population falling below the poverty line (21.1% in 2011) are important challenges Croatia needs to address in order to contribute to the Europe 2020 targets (Table 2).

Croatia also faces **important fiscal and structural challenges**. Compliance with the on-going excessive deficit procedure and macroeconomic imbalance procedure will require decisive implementation of budgetary consolidation measures securing a lasting **improvement in the general government balance**, while being geared towards **enhancing the quality of public finances** [11]. In particular the focus should be on improving the institutional framework of public finances, tax compliance and efficiency of the tax administration, revision of the effectiveness, sustainability and adequacy of expenditure on health and social protection, reducing the ownership of public companies and pension system reform.

Table 2: Europe 2020 headline targets for economic growth¹¹

	EU-27 2012	EU 2020	HR 2012	HR 2020
Employment				
Employment rate, % of population aged 20-64	68.5	75	55.4	62.9
R&D				
Gross domestic expenditure on R&D, % of GDP	2.06e	3	0.75	1.4
Climate change / Energy				
Greenhouse gas emissions, Index 1990 = 100	83.07*	80	89.12	106
Share of renewable energy in gross final energy consumption, %	13.0*	20	16.8	20
Primary energy consumption, 000 TOE	1,593.0*	1,474	71,3	
Final energy consumption, 000 TOE	1,103.3*	1,078	5,902	
Education				
Early leavers from education and training, %	12.8	10	4.2	4
Tertiary educational attainment, %	35.8	40	23.7	35
Poverty / Social exclusion				
People in or at risk of poverty and social exclusion, thousand	123,104e	103,104	1,370	1,220

e=estimated

The correction of the excessive deficit, in order to offset macroeconomic imbalances, should be accompanied by further implementation of structural reforms. Main priorities on the reform agenda in the following mid-term period remain **labour market flexibility** and participation, **relevance of the education system**, **efficiency of public administration and justice system**, and **quality of the business environment**.

Croatia's labour force participation rate is among the lowest in the EU. The labour market needs to be more flexible to support employment growth. Substantial reforms and improvements have been made in the Croatian education sector, but advances have been slow in improving the efficiency and the quality of higher education to better respond to the needs of the labour market.

Measured against the results achieved in alleviating the risk of poverty, the effectiveness of social transfers in Croatia is below the EU average thus there is scope to improve the effectiveness of the **social protection system**, to ensure better targeting of social benefits and enhance the availability of social services.

¹¹ Source: Eurostat

Burdensome regulatory framework, backlogged judiciary system, combined with inefficient public administration, especially on issues of land ownership and property rights, are particular concerns.

Croatia has a universal **healthcare system**. The health sector shows relatively good health outcomes, however it puts significant pressure on public expenditure. In 2012, Croatia spent 7.8% of its GDP on healthcare, among the highest for new EU members. Like most other European countries, Croatia is expecting profound changes in its population structure over the next 50 years as the elderly population grows and the need for health services and long-term care services will rise. A challenge is to provide better health services and improve efficiency while reducing public spending on health and at the same time to increase transparency in the healthcare spending and strengthen control mechanisms. Reform of the healthcare system is underway, including through the newly announced Hospital Master Plan, reducing the average length of stays in the hospital, shifting from in-patient to ambulatory care, increasing hospital collaboration and specialisation, etc.

The **pension system reform** should lead towards decreasing its financial cost while enhancing adequacy of pensions, allowing for equal treatment of pensioners and addressing the issue of early exit from the labour market.

The state maintains an important role in the economy through the ownership of and holdings in a large number of companies, many of which are loss making and highly indebted, posing risks to public finances. A strategic framework for the management and privatisation of state-owned companies was put in place in 2013, whereby the Government proposes annual implementation plans for restructuring of state owned companies and management of state-owned property.

These challenges are addressed through the reform agenda and described in the National Reform Programme 2014 (and Convergence Programme 2014) that the Government will submit to the European Commission in April 2014 as part of the European Semester.

1.1.3 An analysis of sectoral challenges and potentials

Research and innovation

Croatia has one of the lowest R&D expenditures in the EU (0.75% of GDP in 2012), with a high proportion invested from public sources (0.41%) and only 0.34% of GDP from the business sector (Table 3). By comparison, in 2012 EU-27 countries expended on average 2.7 times more on R&D in relation to Croatia. Findings suggest that higher R&D is a potentially large contributor to GDP growth, right after increased employment [12]. Low business investment in R&D is one of the major factors hindering competitiveness of the Croatian economy.

Looking at GBAORD data, despite the overall low gross expenditure on R&D, Croatia still spends more on R&D than other EU countries at similar income level (Table 4). However, patenting activity is unusually low (Table 5), as is licensing and research contracts which may also promote technology transfer and the commercialisation of research results, pointing to the conclusion that **Croatia is inefficient at turning R&D investments into patentable results and economic value**. Patenting, licensing and research contracts are significant indicators because they provide links between invention, innovation and the marketplace. Taken together, these figures suggest that R&D expenditure is not the only bottleneck to increased innovation in Croatia, but that also the national innovation system does not promote technology transfer and is not efficient in commercializing R&D.

Table 3: Research and development expenditure, by sectors of performance (as % of GDP)¹²

	2008	2009	2010	2011	2012
All sectors – Croatia	0.9	0.85	0.75	0.76	0.75

¹² Source: Eurostat (Code: tsco0001)

All sectors - EU-27	1.91e	2.01e	2.01e	2.05e	2.06e
Business enterprise sector - Croatia	0.4	0.34	0.33	0.34	0.34
Business enterprise sector – EU-27	1.21e	1.24e	1.24e	1.29e	1.3e
Government sector – Croatia	0.23	0.23	0.21	0.21	0.21
Government sector – EU-27	0.24e	0.27e	0.26e	0.26e	0.26e
Higher education sector - Croatia	0.27	0.27	0.21	0.21	0.2
Higher education sector – EU-27	0.44e	0.48e	0.49e	0.48e	0.49e

e=estimated; Private non-profit sector not shown

Table 4: Share of government budget appropriations or outlays on research and development (% of total general government expenditure)¹³

	2008	2009	2010	2011	2012
Croatia	n/a	1.51	1.56	1.57	1.73p
EU-27	1.52	1.53	1.48e	1.47e	1.42e
Czech Republic	1.29	1.37	1.36	1.56	1.56p
Estonia	1.62	1.54	1.77	2.07	2.12
Hungary	0.87	0.91	0.73	0.6	0.85p
Slovakia	0.79	0.88	0.96	1.22	0.66p
Slovenia	1.16	1.42	1.24	1.11	1.19p

p= provisional, e=estimated

Table 5: Patent applications to the European Patent Office (applications per million of inhabitants)¹⁴

	2007	2008	2009	2010	2011
Croatia	6.69	6.51	5.19	4.26	3.45
EU-27	116.53	112.56	111.42	109.6	107.45

Croatia has a low share of labour force dedicated to R&D activities, which are key for driving productivity improvements across the economy (Table 6). The number of total researchers decreased in the last decade by 22 percentage points, while the government and higher education sectors together employed over 80% of researchers (82.43% in 2012) and business sector only 17.4%, 2.7 times below the EU-27 average (Table 7). It is clear that Croatia needs to increase the scale and quality of the R&D workforce, particularly in the business sector. Croatian companies must have access to research skills that will enable them to move up the value chain and increase their competitiveness. Public sector research organisations, including universities, must have a sufficient research skills base to engage in world-class research and support their diverse roles in society, including productive contribution to the economy.

Furthermore, the issue of career development path in public research organisations and universities, which is still mainly driven by publishing results, is unlikely to promote the much-needed collaboration of knowledge institutions and the business sector.

Table 6: Human resources in science and technology as a share of labour force, total %¹⁵

	2008	2009	2010	2011	2012
Croatia	29.9	31.5	32.1	30.9	32.3
EU-27	39.6	40.1	40.5	42.4b	42.9

b= break in time series

Table 7: Total researchers (FTE), by sectors of performance¹⁶

¹³ Source: Eurostat (Code: tsco0007)

¹⁴ Source: Eurostat (Code: tsco0032)

¹⁵ Source: Eurostat (Code: tsco0025)

¹⁶ Source: Eurostat (Code: tsco0004)

	Total researchers (FTE)		Share of researchers (FTE) in 2012, by sectors of performance		
	2002	2012	Business enterprise sector	Government sector	Higher education sector
Croatia	8,572	6,688	17.4%	29.2%	53.2%
EU-27	1,175,010e	1,643,672e	46.5%e	12.2%e	40.2%e

e=estimated; Private non-profit sector not shown

The private sector is technologically weak, resulting mainly from the low volume and low investments into R&D of the private businesses [13]. Furthermore, collaborations between the private and public sector R&D actors are few and insufficient. These pose major obstacles to better innovation performance and competitiveness. Lack of interest and/or information at industry level and lack of motivation in the research community for collaboration need to be addressed. Support to technology transfer and joint industry-research projects should therefore be considered priorities where there are benefits for both enterprises and the public sector researchers.

The Croatian economy is dominated by low and medium-low technology sectors and production. There are several globally competitive industry segments (net exporters) and a few exporters selling high-tech products. According to data showing industry shares in manufacturing imports and exports and RVA (2004-2010) by OECD, the following industries were positions as net exporters in 2010 in Croatia: transport equipment, coke, refined petroleum products and nuclear fuel, electrical machinery and apparatus, wood and products of wood and cork, non-metallic mineral products, textiles, textile products, leather and footwear, and recycling. The share of high tech industries in manufacturing exports was 9.3% in 2010. Preliminary competitiveness analysis undertaken as part of the preparation of the Smart Specialisation Strategy for Research and Innovation of Croatia (RIS₃) revealed competitive and comparative advantages in the following economic (industry) sectors: information and communication technologies (telecommunications, manufacturing of computer, electronic and optical products, etc.), machine building, electronics and mechatronics (manufacturing of electrical equipment), pharmaceuticals, food products, wood and products of wood and cork and non-metallic mineral products (cement, ceramics, glass and lime). Science and technology scans undertaken as part of preparing the RIS₃ indicate that Croatia's research capacity coincide with the industry's competitiveness in areas of: telecommunications, electrical equipment, food processing, pharmaceuticals, engineering (machinery) and ICT. However, it also identified significant science and technology capacities in energy, environment and construction [14]. On these bases, four prospective economic areas were suggested in RIS₃ that Croatia might focus on in the context of smart, sustainable and inclusive growth: health, sustainable energy and environment, engineering, and bio-technology (bio-economy). RIS₃ also recognised several important cross cutting themes: Key enabling technologies (KET), information and communication technologies (ICT), tourism, creative and cultural industries and green growth. The selected areas show clear strengths in terms of competitiveness and R&D in Croatia, especially in relation to specific sub-areas, whereas in tourism and green growth Croatia possesses clear competitive advantages in the international context, which should be fully exploited in order to bring benefits for the economy.

A more detailed analysis and interpretation of the findings under the RIS₃ will give a more precise indication of the technologies and economic areas that Croatia will pursue also under the strategy for investing the ESI Funds, taking into account especially the Key enabling technologies (such as nanotechnology, micro- and nanoelectronics including semiconductors, advanced materials, biotechnology and photonics) as the main driving force enabling development of new products and services and the restructuring of industrial processes needed to modernize the Croatian industry. All investments in the area of research and innovation under the ESI Funds will be clearly linked to the Smart Specialisation Strategy for Research and Innovation.

The **main structural challenges** related to research and innovation in Croatia are related to weak governance of the national innovation system and lack of an integrated policy framework for research and innovation embedded in Croatia's mainstream development strategies. However,

Croatia has a sound knowledge base and a good tradition in invention [15]. Interestingly, the EU Croatia Country profile highlights relative technological strengths in health, food processing and agro-business, energy technology, electronics and advanced materials, and digital techniques [16]. Croatia's researchers are already actively collaborating with their European peers and worldwide [17]. Furthermore Croatia has internationally recognized scientists in the homeland and among the expatriates. Croatia has already taken steps to further strengthen the national research capacities by taking measures and adopting policies that are compatible to the EU policy on the European Research Area and also reform measures by amending the Act on Scientific Activity and Higher Education [18], Act on the Croatian Science Foundation [19] and Act on Quality Assurance in Science and Higher Education [20] that are aimed at creating a legislative framework for a more programme-based and competitive funding of public research organisations (PROs). In that sense, the Croatian Science Foundation has taken over from the Ministry of Science, Education and Sport competitive project-based funding of research activity, the first multi-annual (3-year) contracts supporting research programmes have been signed with the PROs and the first call for establishing the national Centres of Research Excellence in already underway. According to Croatia's National Reform Programme 2014 (NRP), the next steps include the restructuring of the network of public research institutes, adoption of new regulations on the requirements for obtaining scientific titles and the continuation of good practice funding schemes such as the Unity through Knowledge Fund for internationalisation of scientific activity (which has received two international awards for best-practice), BICRO's innovation programmes that address the lack of early-stage funding for R&D investment by SMEs which became a reference in the region (both also recognized in the Erawatch 2013 Report and positively evaluated by the Institute of Economics Zagreb and Technopolis Group), and IPA and Structural Funds 2013-financed Science and Innovation Investment Fund (SIIF). These are important contributions because they set the stage for improved R&D activity, which combined with investments in research infrastructure, good research management and through improved collaboration between the R&D institutions, universities and the private sector can result in better orientation of R&D activities towards economy needs. Thus, **transforming existing knowledge into productivity gains and innovation can be considered as a major potential for future economic growth in Croatia.**

Entrepreneurship and the business environment

The non-financial business economy in Croatia was composed of over 153 thousand enterprises in 2011. These enterprises employed 1.03 million persons and generated EUR 20.5 billion of value added. 99.7% of those enterprises were small- and medium-sized enterprises (SMEs), employing 68.3% of persons and accounting for 54.5% of total value added (Table 8), indicating that the **SME sector in Croatia is an important contributor to economic growth and a leader in job creation.** Additionally, in 2011 SMEs accounted for 41% of all exports [21]. These figures mirror the EU average. Between 2001 and 2010 the number of SMEs in Croatia grew by 71%, while the number of large enterprises decreased by one third. In terms of economic value the rise of the SME sector is even more significant. Nine out of ten enterprises in Croatia are micro and small enterprises, employing on average 5 workers. However, operating in difficult macroeconomic conditions, with a decline of the GDP (-1.2%), with relative exchange rate stability and inflation rate of 1.1%, the Croatian SME sector recorded a total HRK 1.7 billion loss for the first time in 2010. The start-up rate is lower than in most EU countries and the problem has worsened over time because of high rates of closing of trades. As a result, the overall size of the SME sector in Croatia is shrinking.

Table 8: Key indicators of the non-financial business economy in Croatia¹⁷

	2010		2011	
	SMEs	Large enterprises	SMEs	Large enterprises
Number of enterprises	165,067	423	153,262	425
Turnover (millions EUR)	46,742.67	31,307.93	46,042.3	31,376.7

¹⁷ Source: Eurostat (SBC, codes tin_00145-00148)

Value added (millions EUR)	11,754,74	9,719.56	11,133.7	9,280.03
Number of persons employed	743,593	331,849	705,673	327,472

The bulk of SMEs in Croatia (52%) are operating in the service sector (NACE codes, G to N). Of that number 32% enterprises are active in wholesale, retail and motor vehicle repair, 16.1% in the professional, scientific and technical activities sector, followed by the information and communications sector (6.4%). Although not dominant with 13.1% of all enterprises in the manufacturing sector, which exceeds the equivalent figure for the EU 27 (9.8%), it remains extremely important to the Croatian economy, because of its employment contribution (28%). Implemented tourist consumption by experimental tourism satellite account directly generates 8.5% of direct GVA, or 8.3% of GDP. The employment rate in knowledge-intensive activities in Croatia is 28.6%, which is lower than in the EU-27 (35.3%). In production, related to activities identified as high technology-based, the share of SMEs in Croatia is higher than in the EU-27 [22].

Despite important economic reforms of nearly two decades, Croatia still has an unfavourable business environment and restrictive product market policies discouraging business development and competitiveness. The situation has improved in recent years and the Government has announced further measures for simplifying doing business, eliminating entry and exit barriers and lowering the overall administrative burden [23]. Start-up conditions are favourable in terms of the time it takes to open a new business and the number of procedures required, while costs (as % of income per capita) are a little bit higher than the EU average [24]. The areas that still need improvement according to The World Bank Doing Business Reports are registering property and protection of investors' rights and the rights of small shareholders, as well as dealing with construction permits. However, these issues are being dealt with through the reforms reported and/or proposed in the Croatian National Reform Programme 2014. Croatia has already implemented new laws regarding construction permits. The new Building Act, Physical Planning Act and Building Inspection Act are in implementation since January 1st 2014, bringing a completely new concept of procedures (the location permit is abolished except in 5 special cases [25], liberalized proof of legal interest which is simpler for investors is in force, location information is available through the Information System of Physical Planning (ISPU) which is a new generation of GIS (according to the EU INSPIRE Directive[26]), and the e-Permit electronic system is implemented [27]. With regards to registering property, implementation of a Joint Information System (JIS), will allow the issuance of land registry extract regardless of jurisdiction, allow for receipt of electronic applications for registration by notaries and lawyers, electronic delivery of Land Registry extract via the system e-Citizens [28], insight and search in the JIS by the Personal Identification Number and harmonization of Land Registry and Cadastral data; full implementation is expected until the end of 2015.

According to the Doing Business Report 2014, which assesses the overall regulatory burden on business, Croatia is placed 89 out of 189 countries (change in rank from last year: -1). The report makes a note of reforms making it easier to do business particularly in the areas of: starting a business (Croatia made starting a business easier by introducing a new form of limited liability company with a lower minimum capital requirement and simplified incorporation procedures), paying taxes (Croatia made paying taxes easier for companies by introducing an electronic system for social security contributions and by reducing the rates for the forest and Croatian Chamber of Economy contributions), trading across borders (Croatia made trading across borders easier by improving the physical and information system infrastructure at the port of Rijeka and by streamlining export customs procedures in preparation for accession to the Common Transit Convention of the EU), enforcing contracts (Croatia made enforcing contracts easier by streamlining litigation proceedings and transferring certain enforcement procedures from the courts to state agencies) and resolving insolvency (Croatia made resolving insolvency easier by introducing an expedited out-of-court restructuring procedure) [29].

Still, the investment climate will need to increase in order to stimulate productivity growth. Besides decreasing the administrative and regulatory burdens, increasing public administration efficiency and reinforcing judiciary efficiency, infrastructure, access to finance, technology, innovation, production renewal and skilled workforce are key components of increasing Croatia's economic growth.

The skills mismatches and skill shortages (especially related to high and specialized skills) on the labour market are particularly affecting businesses. Furthermore, the development of entrepreneurial skills (competences) is a precondition for boosting competitiveness of Croatian SMEs, also as a way to increase the number of opportunity driven start-ups as well as commercialisation of technology. Integration of entrepreneurial education and literacy, as two of the key competences in all levels of formal, non-formal and informal education and skilled workforce are of particular importance.

The ability to start, develop and run competitive businesses is essential for employment. Since 2008, employment in the SME sector in Croatia has dropped by over 70,000. The issue of unemployment is particularly severe in the case of the youth and could be reduced by fostering entrepreneurship. **Although Croatia is among the leading EU Member States in self-employment [30], it is witnessing the largest gap between inclination towards self-employment and probability of self-employment.** Therefore, efforts must be made to make entrepreneurship a desirable alternative to conventional employment.

Access to all forms of finance for SMEs, particularly access to capital for start-up technology-based businesses, is limited. This is a very important obstacle correlated with the increase in competitiveness and the achievement of economic growth. Due to an undeveloped capital market, the main sources of funding for companies in Croatia are banks, which are highly averse to risk and where long-term loans are, in principle, not available. Loans are mostly used for purchase of land and equipment (as much as 50%); therefore incentives taking the form of credit guarantees are also of high importance for 54% of small business entities. Options to finance technology-based businesses in Croatia are even scarcer. Venture capital (VC) is a useful instrument to support increase in competitiveness and achievement of economic growth through enhanced access to finance, especially for knowledge intensive and technology-based start-ups, and it can be coupled with innovation management assistance, which increases the chances of reaching the technology commercialisation stage. So far Croatia's Private Equity/Venture Capital capitalisation in relation to GDP of 0.07% almost equals the EU average of 0.08%, but it is chiefly private equity and not developmental venture capital. In this sense, VC is considered one of the important financial instruments which may serve the entrepreneurship development and innovation policies in Croatia, as well as assist SMEs in various stages of their development where there is market failure.

Given the size of domestic market, it is clear that Croatian enterprises have to boost competitiveness and be able to offer and sell products on international markets. Boosting competitiveness assumes a number of different things, among which are overcoming barriers and limitations posed by the regulatory framework and administration, minimizing production costs, increasing productivity and adopting new technologies. Export oriented companies in Croatia have good abilities to recognize, adopt and commercialize new technologies, compared to non-export firms. 66% of exporters have acquired a new technology in the past three years (nearly twice as many as non-exporters) [31]. It is also interesting that Croatian companies that do use innovation seem to perform better than their EU counterparts when it comes to converting products into sales revenues. However, according to available data, only around one third of Croatian SMEs implement some form of innovation (as opposed to 79% of large enterprises) [32]. The structure of innovation activity shows that Croatian small businesses do not invest enough in R&D and innovation activities in order to introduce new products and services onto the market. Furthermore, data indicate that the share of high-tech exports in total exports of Croatia is well below the EU average (Table 9).

Table 9: High-tech exports, as % of total exports¹⁸

	2008	2009	2010	2011	2012
Croatia	7.1	7.6	7.0	5.8	7.4
EU-27	15.4d	17.1d	16.1d	15.4d	15.6d

d= definition differs

Croatia's export-competitiveness is closely related to renewal of its productive structure, particularly those sectors producing tradable goods and services. While the lack of cost-competitiveness and product upgrade has certainly affected the expansion and the survival of exports in mature markets, **it is the narrow base of exportable goods that is hindering a broad diversification and sustained growth of Croatia's exports.** The structural transformation in Croatia's production space over the past two decades has been very modest when compared to the productive renewal that occurred in other EU Member States. A bold renewal of the productive system in Croatia requires, in turn, an enterprise sector capable to innovate, compete and grow in global markets and a business environment that promotes new business ideas, rewards risk-taking and promotes entrepreneurship.

The **tourism sector** represents one of the important drivers of the Croatian economy and contributes to the overall social development of Croatia. In 2013 the share of tourism in the overall economy was estimated at 16.5%, with the international receipts totaling EUR 7.2 billion. Moreover, 12.5 million arrivals and 64.8 million overnight stays were recorded in 2013, while permanent employees in tourism sector numbered 84,200 or 6.3% of total employed persons in Croatia [33]. Tourism is a cross-cutting horizontal sector which generates particularly strong multiplying effects spilling over to the other business sectors such as agriculture, food production and processing, construction, textile, etc. Thus, it may represent an economic platform for the overall development of the country, as recognized in the Tourism Development Strategy of the Republic of Croatia by 2020. The Strategy foresees EUR 14.3 billion of tourist spending, of which 12.5 billion will derive from international spending and 1.8 billion from domestic spending. Achieving this level of tourist activity, with increased use of tourism for the placement of other local products and services, should almost double the direct influence of tourism on gross domestic value of Croatia than the one effectuated in 2011.

Differences in entrepreneurial activity and entrepreneurial success vary between regions. Continental Croatia (NUTS II) has 61.42% of small businesses and 66.87% of employment, while the Adriatic Region notes 38.58% of small businesses and 33.13% of employment. When looking at the county level (NUTS III), in Continental Croatia, besides City of Zagreb which is exceeding the average (with 23.6% enterprises and 28.16% of employment), highest entrepreneurial activity is in Zagreb County (6.59% enterprises and 6.33% of employment) and Osijek-Baranja County (5.37% of enterprises and 5.49% of employment), while the entrepreneurial activity is significantly lower in the rest of this region (lowest in Požeško-slavonska County with 1.24% of enterprises and 1.22% of employment). Similar situation is in the Adriatic Region where entrepreneurial activity is high in the Split-Dalmatia County (10.41% small businesses and 9.66% employment), Istria and Primorje-Gorski kotar County (8.93% small businesses and 8.14% employment) and the lowest in Lika-Senj County (0.98% small businesses and 0.85% employment).

Regions in Northwest Croatia also dominate in the number of innovative enterprises (city of Zagreb, Istria and Varaždin County) and counties like Požega-Slavonia, Vukovar-Srijem and Lika-Senj County are lagging far behind [34]. Distribution and activity of small enterprises in Croatia is unbalanced, both inter- and intra-regionally, and this is one of the main factors contributing to uneven economic development of Croatian regions. However, as the Study suggests all ten counties with the lowest competitiveness rank in Croatia also have the lowest development index (below 75% of the average of Croatia – see explanation under the heading *Specific territorial challenges*). This correlation suggests that the causes of their poor development are, for the most part, also the causes of their poor competitiveness.

¹⁸ Source: Eurostat (code: tin_00140)

At local and regional levels institutions have been established, as well as at national level, to provide support, in different forms, to entrepreneurs and small businesses (i.e. national development and investment agencies, chambers, regional and local development agencies, entrepreneurial centres and business incubators). **At present business support organisations provide general and low value added support services and advice to entrepreneurs.** There is a need for these organisations to develop and deliver products and services, which are appropriate to enterprises consistent with their position in the growth cycle. Further business support organisations have difficulty in meeting the demand from entrepreneurs and managers for specific and high value added services including quality management, marketing plans, investment and project appraisal and support, support in relation to intellectual property rights, support related to innovation and product development. Systemic and long-term support should be given to these organisations in order to build their capacities for providing higher value added services to entrepreneurs, as well as to help them towards sustainability.

ICT networks, production and usage

According to the Broadband Coverage in Europe study, Croatia is slightly behind the EU average in total standard and total standard fixed broadband coverage (97.5% in Croatia vs. 99.4% in the EU-27 and 94.1% in Croatia vs. 95.5% in the EU-27 respectively), but quite far behind the EU average in total NGA coverage (19.1% in Croatia vs. 53.1% in EU-27).

The number and density of broadband connections is unevenly distributed across the Croatian territory. Zagreb has the highest standard fixed broadband coverage and NGA coverage. Beyond this, counties in the north (Međimurje County), west (Primorje-Gorski kotar County) south (Zadar and Split-Dalmatia Counties) and east (Osijek-Baranja and Vukovar-Srijem Counties) of Croatia have the highest standard fixed broadband coverage. No region in Croatia had NGA coverage over 35%. Furthermore, less than 0.01% of households had access to NGA services in rural areas at the end of 2012 [35].

In terms of available technologies, coverage of most technologies falls behind the EU average, with the exception of DSL, which is slightly above (94.1% in Croatia vs. 92.9% in the EU-27 in 2012). This domination of one type of technology and access related to the existing copper network, which satisfies the existing capacity but does not permit more significant progress in broadband availability and access speed, is also the key reason behind low NGA coverage (for e.g. none of the cable network has been upgraded to Docsis3, typically a key component in NGA coverage).

In the last five years the density of broadband Internet in the EU is increasing rapidly. **Density of broadband Internet access through fixed access in Croatia was 21.56% at the end of 2013.** This is below the EU average, where the density of connections in the same year amounted to 27.7%. In 2013, 65% of households in Croatia had Internet access. The number of households with Internet access in Croatia is growing, but has not yet reached the EU-27 average (79% in 2013). In regards to broadband Internet, 64% of households in Croatia had access in 2013, when in the EU, broadband Internet Access had 76% of households [36]. 2.2% of population (around 92,000 inhabitants) do not have broadband access, located in 1,025 settlements in mostly war-affected areas, mountain areas and islands (i.e. white spots). Grey spots cover 43.1% of total population mostly in rural and suburban settlements with below 2,000 inhabitants. Black spots encompass 54.7% of Croatian territory. Only 15% of Croatian population enjoy NGA located mostly in the four largest cities (FTTH network of one provider; grey spots) [37].

ICT literacy of individuals is low in Croatia. Intermediate and advanced levels of computer skills are present among 45% of Croatian citizens (2012), below the EU-27 average (51% for the same year) [38]. Similar lags can be observed when comparing Internet usage, employment of ICT professionals in companies and acquiring ICT skills through education between Croatia and EU average. Based on Eurostat's computer skills in the EU data, 4% of Croatia's tertiary education (first and second stage) graduates in 2012 majored in computer sciences (the EU-27 average being 3.4% for the same year), showing potential for ICT usage among young people.

The level of provision and use of e-public services is relatively low. The percentage of individuals using the Internet for interaction with public authorities was only 25% in 2013 (vs. 42% in the EU-27). For enterprises this indicator was 63% (in 2010) vs. 76% in the EU-27 [39]. Public e-services in Croatia are to a greater extent provided to companies than to citizens. 50% of basic public services have since 2010 been available to Croatian citizens via the Internet (compared to 81% as the EU-27 average). A significant number of households, public administration and judiciary institutions, businesses, educational, healthcare and cultural institutions and other entities do not or are not able to join to the networks, access the data and exchange the information, to provide and to receive e-services. At the same time, the deployment of ICT is becoming a critical element for better delivery of policy objectives.

In 2010 in the EU-27, the ICT sector (both ICT manufacturing and ICT services) accounted for 4.38% of GDP, 2.53% of employment and 15.9% of value added [40]. There are no comparable statistics available for Croatia. However, **ICT production and usage can have a great impact on the economy.** ICT can empower businesses and agriculture to enhance their capabilities and productivity. Studies show that ICT has an important role in facilitating also innovation and technology adsorption. ICT is already widely used by Croatian companies, particularly by those operating in the services sector.

ICT development may be used also as a driver to achieve more inclusive growth. The potential of ICT shall be used particularly in the rural and remote areas of the country (e.g. inhabited islands) to provide better education, healthcare, public and social services and facilitate business growth. This shall also provide a good opportunity for the growth of the ICT industry, creating demand for content development and employment.

Energy consumption, resource efficiency and natural resources

Emission levels have been growing steadily between mid 1990s and 2008, when they started to decrease mainly due to the collapse of the industry and the economic crisis. The total **emission of greenhouse gasses (GHG)** in Croatia in 2011 amounted to 28.3 mil/t CO₂eq, with the largest share of the carbon dioxide (CO₂) emissions at 73.9% followed by methane (CH₄) at 12.6% and nitrous oxide (N₂O) at 12.4%. The largest sectoral contributors to GHG emission in 2011 in Croatia were energy industries and the transport sector, followed by agriculture (Table 10).

Table10: Greenhouse gas emissions by sector in Croatia in 2011¹⁹

	In 1000 tonnes of CO ₂ equivalent	% of total
Total emissions	28,256	100
Energy industries	6,275	27.6
Manufacturing industries and construction	3,153	13.9
Transport	5,889	25.9%
Industrial processes	3,000	13.2%
Agriculture	3,319	14.6%
Waste	1,078	4.7%

The overall characteristics of the Croatian **energy system** are a decreasing trend in the final energy consumption between 2008-2011 by 6 percentage points [41], energy intensity (efficiency) of the economy above the EU-27 average (160% of EU-27 in 2011 [42]), and a relatively high-energy dependence (54.4% in 2011) [43] with dominance of carbon sources (i.e. oil, gas) covering two thirds of the final energy consumption in 2011 [44].

By importing 54% of its energy demand, Croatia is facing **many challenges to the security of energy supply** and continuous growth of imports in covering the overall energy demand. In today's balance

¹⁹ Source: Eurostat (code: tsdcc210) and EEA

of primary energy supply in Croatia, oil and oil products represent 50% and natural gas 25%. Consumption of these fuels is predicted to grow in the future, while local oil and natural gas production will decrease due to exhaustion of deposits. Therefore, Croatia must strive towards alleviating its dependence on energy imports by adjusting the entire energy distribution system to new needs.

In terms of energy from **renewable energy sources** (RES), Croatia is above the EU average (overall share of 15.7% compared to 13% EU-27 average in 2011) [45]. In terms of sectors (as set by the Directive 2009/28/EC), in 2011 over 34% of the gross electricity consumption was generated from renewables while the share of renewables in the energy consumption of the heating/cooling and transport sectors was much lower and amounted to 12.8% and 1.4% respectively [46]. However even when it comes to the large share of RES in electricity production it must be noted that majority of that percentage is attributable to Croatia's large hydro power plants (26.3% out of 28%) while other sources of RES (SHPP, wind, solar, biomass etc.) contributed only 1.7% [47].

The largest sectoral contributors to the final energy consumption are the households/services (mainly buildings including public sector) with 49% share **and transport** (33%) while the industry sector amounts to 17%. Within the **building sector** the majority (around 70%) of the total energy demand related to the heating and cooling generation which account for high 45% of total energy consumption. When it comes to transport it is important to note that despite a relative (small) decrease in the past years, it is the fastest growing sector in terms of energy consumption in Croatia, increasing its share from 21% to 33% between 1991 and 2011. As stated above the overall energy consumption is decreasing, however this is mainly due to the overall economic conditions and not so much because of increased energy efficiency which can be illustrated by the 6% decrease in the final energy consumption in the 20018-2011 period while in the same period energy intensity of the economy decreased by 3%.

The **energy intensity** (efficiency) in Croatia is higher than the EU average, and although primary and final energy consumption is decreasing continually this is not attributable to increased efficiency of energy management, but primarily to the overall decrease in the energy consumption. Looking at the energy efficiency index (ODEX) [48] the following trends can be observed in the 2007-2012 period: a) the ODEX is steadily decreasing (which implies more efficient use of energy) but not as sharp as the consumption; even more it can be noticed that total energy supply is decreasing faster (decrease in 2011 for 6.8% compared to 2010) than consumption (decrease in 2011 for 2.5% compared to 2010) at the same time which implies limited effect of energy efficiency measures, b) the households sectors is well above global ODEX (of all sectors) which implies that the biggest potential for savings in the building sector and c) ODEX for the transport sector is even increasing thus making it an additional priority for targeting through energy efficiency measures. With respect to the industry, the ODEX is falling rapidly; but it is more likely that such trends are due to economic turmoil in the given period than to the implementation of EE measures on a larger scale.

In Croatia, **administrative capacities for energy planning and management are weak**, with potential investments being accompanied by a relatively complicated administrative procedure. The general status of the **energy distribution/management infrastructure is not satisfactory**, with limited spread of individual metering and billing and practically negligible share of smart metering and smart grids penetration.

According to The Sixth National Report to the UNFCCC, **clear marks of climate change in Croatia could be observed during the time period between 1961-2010** [49]. The same Report provides scenarios of climate change impacts in the future (2011-2040) by envisaging: a) a further increase in the average temperatures (0.8°C to 1°C) affecting the whole territory, especially coastal areas and islands, b) unequal trend in the precipitation level (8-12% decrease in average), however with strongest decrease once again in the coastal area, and c) an additional increase in the number of dry days in the autumn (for 1% to 4%). Having in mind such scenarios, **Croatia is considered highly sensitive in terms of climate change impacts**, both in terms of natural ecosystems (hydrology, soil, biodiversity) and main economic activities (tourism, forestry and agriculture). In terms of adaptation

measures, a comprehensive approach is to be developed within The National Strategy and Action Plan for Adaptation to Climate Change that is to be completed in 2016.

In terms of the specific (natural) risks, in the 1995-2012 period EUR 3.5 billion of damages were reported, out of which only 5% were compensated from the state budget. Increasing level of damages observed during that period amounted to around EUR 200-300 millions of direct damages per year and there these are just direct financial damages (i.e. not including environmental damages) [50]. **Most serious damages are related to floods, droughts and fires, with around 70% of damages being on agricultural land (in particular caused by droughts)** [52]. Around 15% of Croatian territory is at risk of floods, while the functionality of the flood protection system is at around 75%. Only around 1% of the agricultural land is being irrigated [52]. In the 2005–2012 period, 2,488 forest fires were reported in which almost 80,000 ha of forests were affected, with large parts located in the coastal region (both in terms of number of fires and affected area) [53]. The increasing dry seasons categorically translate to less rainfall and thus droughts have implications for crop production. Climate change models forecast higher average temperatures that will cause crop-growing seasons to become hotter and drier. On-going climate change could additionally increase moisture deficits across the country, with the largest deficits in the South and East parts of Croatia. Currently the irrigation infrastructure is rather undeveloped, which then affects agricultural production because most of the farmers do not have possibilities for investments in on-farm irrigation, and this risk is particularly evident during summer months. Currently, Disaster Risk Assessment is being developed (to be completed by end 2015), which will provide the basis for improvement of the overall disaster management system, specifically by prioritising specific risks and measures that require mitigation.

The state of the environment in Croatia is relatively good, however the sectorial assessments reveal various development and improvement needs. In terms of (municipal) **waste management** Croatia recorded lower per capita municipal waste generation than is the EU-27 average (Table 11), with quite a high collection coverage rate (99% in 2012). However, the waste management performance indicators are lower than the EU-27 average in 2012 in terms of level of material recycling of municipal waste (51 kg/per capita vs. 132 kg/per capita respectively) and subsequently share of municipal waste landfilled (323 kg/per capita vs. 162 kg/per capita respectively) [54]. Around 83% of the municipal waste in Croatia is the being land filled, whereas the EU average is around 40% (Table 11).

Table 11: Municipal waste generation and disposal (kg per capita)²⁰

	EU-27		Croatia	
	Generation	Deposit onto or into land	Generation	Deposit onto or into land
2008	520	199	415	401
2009	511	192	405	393
2010	506	186	379	358
2011	500	171	384	349
2012	492	162	391	323

The situation is somewhat better with special categories of waste, which are subject to specific legally prescribed modes of separate collection and reuse (they are also financially subsidized), with a rate of collection and reuse varying from 35% (for electrical and electronic waste) up to 85% (for packaging waste) [55]. In terms of landfills, in 2012 a total 113 municipal waste landfills were remediated and closed with 51 being in the process of remediation and 139 still being in use mainly for the purpose of land filling municipal waste. In addition to the official waste landfills, there are an estimated 3,000 unregulated landfills (wild dumps).

²⁰ Source: Eurostat (code: tsdpc_240)

Croatia does not have in place a functional system for hazardous waste management, which is in fact mainly (up to 70%) not even being reported [56].

In the **water sector**, there are differences in performance indicators between Croatia and the EU. Table 12 provides data on key water infrastructure indicators from selected countries, since data on EU average does not exist.

Table 12: Key water infrastructure indicators

	Population connected to public water supply (2011, %) ²¹	Population connected to urban wastewater collecting systems (2009, %) ²²	Population connected to urban wastewater treatment with at least secondary treatment (2009, %) ²³
Croatia ²⁴	80	44	28
Bulgaria	99	70	42
Lithuania	75	62	67
Malta	100	98	48
Poland	87	62	64
Romania	57	43	n/a
Netherlands	100	100	99

Data is not readily available to allow detailed comparison between Croatia and the average EU connection level. However, from the available information it can be concluded that **accessibility to the public infrastructure in the water sector is lower in Croatia than in the EU**, particular for wastewater collection and treatment. Additionally, significant spatial differences exist in water supply in terms of connection rates between the Black Sea basin (77%) and Adriatic basin (91%), and of sewerage systems. Even more significantly, these differences relate to the size of the settlements with an average 74% connection rate in the agglomerations above 150,000 p.e. and around 4% in the settlements with below 2,000 p.e. [57].

The public water system in Croatia is encountering extremely high losses (around 45%) and some 6% of the population that is not connected to the public water supply system uses water that does not comply with microbiological standards [58].

In accordance with the water framework directive Croatia prepared the first River Basin management plan for the 2013-2015 period, while the second one, covering the period 2016-2021 is under preparation. The RBMP sets the main goals related to the achieving and/or maintaining good status of the water bodies and compliance with all the requirements for the quality of water in sensitive areas. The Programme of measures (as part of the RBMP) envisaged several measures with the main one relating to the protection of water from pollution (through investments in sewerage collection and treatment) and more efficient water management (in terms of abstraction and protection).

Besides compliance-based obligations (compliance with the Urban Waste Water Directive by 2023 with intermediary deadline for 2018 and 2020 depending on the size of agglomeration and sensitivity of the recipient and compliance in the microbiological parameters and indicators of the water intended for human consumption by the end of 2018), **improvements in the communal sector are necessary since the current institutional system for waste and water managements is fragmented and inefficient** (with more than 150 companies are dealing with water and more than 200 with municipal waste). Consolidation is needed in order to secure adequate availability of

²¹ Source: Eurostat (code: ten00012)

²² Source: Eurostat (code: ten00020)

²³ Source: Eurostat (code: tsdnr320)

²⁴ Figures for Croatia are taken from the River Basin Management Plan (draft, May 2013). 27% for connection/treatment includes all level of treatment, with an estimate that 2/3 of that figure relates to the secondary treatment or higher.

services across Croatia, provide basic prerequisites for a more balanced regional development and secure efficient management of resources, as well as the protection of the natural environment.

Croatia is rich in terms of well-preserved natural resources and biodiversity, with 40,000 identified taxa (total estimate is 50,000 to 100,000). According to the diversity of plant species (0.080 species/km² or 0.088 species/km² including subspecies) Croatia occupies third place in Europe, with the genetic potential being valuable especially from the point of the biodiversity and the need to adapt living and economic conditions to the climate change. However, a trend of biological and landscape diversity loss can be observed mainly due to over (inefficient) usage of natural resources, loss of habitats, intake of alien species, pollution and pressures from economic activities (primarily from infrastructure development and agriculture [59]). There are almost 3,000 species from 16 different taxonomic groups assessed within Croatian Red List, out of which more than 45% taxa are threatened.

Protected areas cover 8.56% of total Croatian territory (12.20% on the mainland and 1.94% of internal waters and territorial sea) in total 419 sites [60] in 9 categories of spatial protection [61], whereas nature parks cover 50% of total area under protection. Croatian ecological network Natura 2000 covers 36.67% of land surface and 16.39% of sea surface (in total 29.38%) including all the national and nature parks [62]. Biodiversity restoration and preservation is of particular importance for the different ecosystem types particularly forest areas since forests cover about 48% of the land surface in Croatia. The consequences of the Homeland war, in the form of **leftover minefields** can still be found in the nature protected areas in Croatia, including the Natura 2000 sites, thus not allowing optimal solution of their long-term development. According to the Croatian Mine Action Centre, the total amount of Mine Suspected Areas within nature protected sites cover 324 km² with majority relating to the mine contamination of forests and forestland that prevents sustainable forest management.

Croatia has over 8,000 items on the list of protected cultural heritage, dominantly immovable such as historical and archaeological sites followed by movable (preserved in museums) and intangible heritage, with 7 items on the UNESCO world heritage list and 10 items on the UNESCO intangible cultural heritage list. In addition Croatia is exceptionally rich in valuable landscape characteristics that are results of climate and relief diversity as well as in traditional heritage. When it comes to the contribution of the cultural sectors, exact data is not available to determine its share in the overall business activities, however it can be safely assumed as a growing sector. Sustainable use of natural and cultural heritage for development and employment purposes is linked mostly to the tourism sector [63].

The global trend of **urbanization**, present also in Croatia, brings up specific environmental and resources management issues. On the one hand there are particular urban environment challenges, primarily ambient air quality which in Croatia is assessed to be inadequate in 6 urban areas (Zagreb, Sisak, Kutina, Rijeka, Osijek and Split) that are on a temporary basis exposed to inadequate air composition due to the pollution from industry and/or heavy traffic, while on the other hand there is existing potential in developable 'brownfield land' arising from abandoned infrastructure and state-owned facilities such as ex-military and industrial sites not being adequately valorised. Just in central state ownership there are around 300 ex-military objects (although not all in urban areas) [64], proving options for economic and social development purposes without burdening (using) additional physical and natural resources.

Although there are many poor and deprived communities living in Croatia's urban areas, these are rarely concentrated in poor neighborhoods in big cities as is the case in Western Europe. The spatially concentration of people who are unemployed or otherwise vulnerable tends to be in rural and degraded small towns and settlements.

Finally, **weak and underdeveloped capacities at all levels in terms of number of employees, organizational issues, technical equipment and modernization** are key issues that need to be addressed in order for Croatia to be able to fully and adequately tackle the challenges and obligations

related to energy and environment. The capacity building issue is horizontal and diversified, and it includes various activities such as training, formal education, promotion etc., which should be addressed in parallel with the sector-specific needs and challenges described above.

Transport infrastructure

Croatia's specific configuration with a total area of 56,594 km² indicates vital importance of transport infrastructure for the countries' overall development. Due to its geographical position, transit transport has high significance in terms of connecting Central Europe with the countries of South-East Europe. **Key sections of pan-European transport routes are passing through Croatia and their transit potential could be used in supporting the sustainable development of the country.** Corridor X, crossing the country from West to East, is an important corridor for the whole European transport system (18.4% of the total corridor length passes through Croatia, i.e. 434 km), and is largely and more than others used for transit traffic. Also, important to mention are Corridor V branches B and C, with the branch B presenting the most important railway line on the network in the country connecting the major Croatian Port of Rijeka with the hinterland, the economic centre of Croatia – Zagreb, and the whole area of central Europe.

A basic network of transport infrastructure in Croatia consists of roads (29,038 km), railways (2,722 km), seaports of European and national interest, inland waterways, airports and terminals for combined transport. Since the country suffered significant war damage between 1991 and 1995, it received loans from The World Bank and the European Bank for Reconstruction and Development (EBRD) to improve roads, railroads and air-traffic control. The focus of investments in the past decade has been on the building of 1,600 km of 4-lane high-speed motorways. All other modes of transport, particularly railways, require quality improvements, and there are issues of interoperability, connectivity/accessibility, pollution and safety, which are critical not only to realise regional economic potential, but also lift the overall quality of life.

Croatia's accession to the EU has put the country in the position to take the leading role for freight connections in/to South-East Europe. European policies require especially developed freight corridors, which are attractive for the market thanks to their reliability, limited congestion and low operating and administrative costs. Those corridors must also be conceived with an attention to optimise use of energy and limiting environmental impacts (such as pollutants emissions). The challenge for Croatia is to **ensure structural changes to enable rail to compete effectively** and take a significantly greater proportion of medium and long distance freight. Seaports could have a major role as logistics centres and thus require efficient hinterland connections. Their development is vital to handle increased volumes of freight both by short sea shipping within the EU and with the rest of the world. Motorway connections on the main corridors are more-or-less developed, while much still has to be done on the side of railway. Connections to some airports still lack enough quality. Inland waterways, where unused potential exists, have to play an increasing role in particular in moving goods to the hinterland and in linking the European seas.

The **railways are an underdeveloped form of transport.** This is reflected in the shortcomings in the Croatian railway sector, which is far from being comprehensive, high quality and interoperable, and which lacks in connectivity with neighbouring countries. Although Croatia in terms of network density exceeds the EU average (considering the total area or population [65]), the Croatian railway network has long sections which are not electrified or which are in single track [66]. European Rail Traffic Management System is not deployed along the main lines to ensure interoperability with neighbouring countries. Due to the poor condition of the infrastructure, railway performance is significantly reduced, as manifested by the rather low commercial speeds on selected sections and recurrent train cancellations and delays. The average conventional speed of trains is 61.8 km/h and average commercial speed of trains is 36 km/h. In 2012, 27.6 million of passengers and 11.1 million tonnes of goods were transported, which represents a decrease in relation to figures from 2008 [67]. Considering the number of electromotor and diesel motor trains, passenger wagons and locomotives, the current railway rolling stock capacity is unsatisfactory, with a high number of inactive wagons demanding large financial investments and motor trains for local and commuter transport being old, inadequately comfortable and of low level of reliability.

Croatia has more than 364 old industrial line railways with a total length of 500 km that are not operational. After the war, and great damage inflicted on the railway infrastructure, investment in railway lines of regional importance was modest so that the functional capacity of these lines continually reduced. The most critical and completely dilapidated sections of railway lines of local importance were only repaired, predominantly with re-used material. The level of investment was insufficient given the age and dilapidated state of railway infrastructure.

Table 13: Modal split of inland freight transport in Croatia, % of total tonne-kilometres²⁵

	2008	2009	2010	2011
Road	72.7	73.7	71.2	74.0
Rail	21.	20.6	21.2	20.2
Inland waterways	5.5	5.7	7.6	5.7

Bad condition and partially obsolete railway infrastructure leads to continuous loss of share in modal split (Tables 13 and 14) and contributes to larger fuel consumption and emissions, as most transport occurs on roads. Railway (and inland waterway, for that matter) infrastructure improvements would work in favour of a more balanced modal split of passenger and freight transport and would lead to increased competitiveness.

Table 14: Modal split of passenger transport in Croatia, % of total inland passengers²⁶

	2008	2009	2010	2011
Trains	5.4	5.	5.6	4.9
Passenger cars	82.2	83.6	83.7	84.6
Motor coaches and (trolley) buses	12.5	10.7	10.7	10.5

Croatia's infrastructure investment plan refers to the development, modernisation and rehabilitation projects on multimodal TEN-T. **Croatia has 2 Core Network Corridors crossing the country, the Mediterranean and the Rhine-Danube Corridor both of which are insufficiently interoperable.** The existing lines need to be upgraded and new ones built, where necessary [68]. Particular attention is to be paid to creating multimodal interconnections. Together with modernising the railway lines along TEN-T, broadening that type of activities along the non-TEN-T lines of regional importance is vital, since the dominant part of traffic is actually taken by passenger and especially commuter rail traffic. Considering poor infrastructure, obsolete rolling stock, and outdated equipment for signalling and communication, most measures in terms of connection and mobility must aim at exploiting the potential of railways in developing a multimodal transport system and facilitating the use of a generally more environmentally friendly and safer means of transport.

Further development of TEN-T railway routes represents only a part of the challenge in supporting a Single European Transport Area and promoting Croatia as one of mayor transport routes for Europe. **Modernisation and filling missing gaps of main road transport infrastructure lines which form part of the TEN-T network, with focus on connecting EU borders and isolated areas in Croatia,** will have significant influence over international connectivity, but also on development of individual regions, promoting their integration both into the EU internal market and global economy.

As regards to IWT, the total length of **navigable inland waterways** within Croatia's borders is 740.2 km and the main river ports situated along these inland waterways are Osijek, Sisak, Slavonski Brod and Vukovar (all classified as TEN-T ports). Although the total network density amounts to 18 km per 1,000 km², which is relatively dense compared to the average density of the EU inland waterway network of 9.4 km to 1,000 km², rivers in Croatia have been rather underused as transport corridors.

²⁵ Source of data: Eurostat (code: tsdtr220)

²⁶ Source of data: Eurostat (code: tsdtr210)

The number of navigable days is very low, while the current IWT classification allows navigation of relatively small vessels and thus further limits the competitiveness of IWT. The sector is challenged with outdated infrastructure, relatively low speed and therefore longer duration of travel. Elimination of the bottlenecks in IWT will enable full exploitation of loading capacities of ships/vessels, more quality direct shipping and thus greater competitiveness of IWW ports.

Croatia is equipped with 1,254 kilometres long motorway network, nevertheless additional sections are still under construction and/or in need of environmental modernisation. Dubrovnik suffers from the physical separation from the rest of the country by Bosnia Herzegovina's access corridor to the Adriatic Sea. This implies the need for different (additional) measures to guarantee accessibility for local and suburban travellers. These issues will be made even more relevant when Croatia joins the Schengen area, thus implying a higher level of controls at the border. A relevant node is also the airport, which should become increasingly the main traffic generator/attractor due to its role in long-distance accessibility to this area.

Concerning **road safety**, there is a network of secondary roads that are far below technical standards. The network of national, county and local roads is often disconnected from the European transport corridors and need further development. Total length of roads in Croatia is 29,410 km of which national roads are 6,843 km, county roads 10,967 km and local roads 10,346 km [69]. Roads are split in 5 categories: very good, good, acceptable, bad, and very bad. Only 18% of national roads are in good condition, 34% are in an acceptable condition 24% are in bad condition and 23% are in very bad condition [70]. Due to limited investments in the modernisation of secondary roads, and since the improvement of safety conditions on the roads did not follow the increase of 58% in the transport of goods registered between 2000-2010, they are in poor condition and lack adequate road infrastructure facilities. Insufficient investment to the renewal of roads due to high cost of maintenance has led to a number of traffic accidents above the EU average, which unquestionably makes traffic safety unsatisfactory and thus safety issues highly relevant. By reconstructing a part of the network, the cost of road maintenance will be reduced and safety will be increased.

Croatia is at bottom of EU rankings in terms of road fatalities (86 dead per million inhabitants compared to the EU average of 52) and traffic accidents are above the EU average. The majority of road traffic accidents and fatalities in Croatia take place in urban areas (80% of the accidents happen inside urban agglomerations vs. 68% which is the EU average; and 59% of fatalities vs. 39% EU average). However, since 2008 Croatia has succeeded in achieving a large reduction of the number of road fatalities, and has further committed to reducing the number of fatalities by half by 2020 through the **National Road Safety Programme 2011 – 2020**. Within the Programme, road infrastructure quality is only one aspect of safety, enforcement of traffic laws (speeding, drinking and driving, fines and penalty points), vehicle safety standards (standards inspections), pedestrian safety, emergency services (emergency number, equipment, rescue and health services) and road safety management (including fact based and results based actions, monitoring and data systems supporting proper diagnosis and reaction) are also addressed.

Croatia has a low share of environment-friendly transport, which requires putting further efforts into developing intelligent, sustainable and integrated low carbon public transport and urban and sub-urban mobility systems. Public transportation is unreliable, slow, uncomfortable, and full of bottlenecks and air pollution. This sector is also defined by low accessibility, increase of individual transport in cities and insufficient use of alternative forms of urban transport. There is an obvious need for decarbonisation of public transport sector and improved mobility within cities by developing intelligent, sustainable, integrated low-carbon public transport systems (urban and suburban regional mobility - daily migrations areas), and for decreasing negative environmental impact by removing obstructions and bottlenecks which are causing pollution and congestion on existing road infrastructure and promoting clean transport, including management and surveillance, infrastructure and rolling stock for all modes of transport.

Insufficient accessibility and low connectivity of islands in the context of suburban and daily-migration areas is another specific challenge in Croatia. Problems such as outdated infrastructure, high maintenance costs, weak links among islands and between the mainland and islands, and

insufficient capacity of existing transport infrastructure are resulting in poor accessibility of regions and are the cause of increasing depopulation on a large share of Croatian islands. The port traffic infrastructure is inadequate as well as the transport infrastructure that connects the port with hinterland.

Similar problems can be found at the regional level (county level) as some also have a large number of long commutes (commuters) on a daily basis. The new **Transport Development Strategy** deals also with the development of urban-suburban, interurban and regional mobility with the special emphasis on the usage of clean fuel and generally environmental protection issues, integrated modes of transport, implementation of intelligent modes of transport and better information systems. The intelligent and integrated modes of transport in such areas are to be installed and especially for regional roads different kinds of safety problems are to be addressed (such as pavements, bicycle lanes, and two level crossings in order to achieve a better traffic flow thus reducing carbon emissions). Additionally, rolling stock and vessels in all sectors are outdated, and environmental issues, such as e.g. noise protection are unsatisfactory.

In summary, the existing physical infrastructure is a good starting point for future development of the transport sector in Croatia [71]. The investments in transport infrastructure should contribute to the rise of the level and quality of transport services that would lead to increased volume of passenger and goods traffic in general. There is also good potential for logistics development and particularly for further water transport development, both sea and inland.

Additionally, good employment potential in the transport sector and the existence of know-how and technologies for further development are Croatia's strong points. The national and local transport network must be constantly developed in order to ensure access to markets and appropriate economic ties among regions of the country and connections with main TEN-T corridors. Modernisation and development of the regional transport infrastructure network will contribute considerably to the achievement of higher quality of business environment and more effective implementation of social cohesion objectives, increase labour force mobility and reduce regional disparities. Proper condition of transport infrastructure will help attract investments to settlements, small towns, municipalities and other administrative centres, ensure urban-rural mobility, and reduce unemployment rate. Also, Croatian business active in the transport sector can apply their experience and expertise, both in matters of infrastructure, vehicles and passengers to introduce best practices and innovative ideas in its future development.

Labour market participation and skills

The situation and trends on the Croatian labour market are severely unfavourable. In the period 2008–2012 the unemployment rate almost doubled, from 8.4% to 15.9%, without certain signs of strong recovery in the upcoming medium-term period [72]. The negative trends have been present since the beginning of the economic crisis in 2008 and are directly determined by the uncertainty of the economic environment and insufficient international competitiveness of Croatia. The employment rate of population aged 20 – 64 decreased from 62.9% in 2008 to 55.4% in 2012, positioning Croatia at the very end compared to all EU Member States [73]. Due to the current presence of the negative outlook, in the period until 2020 there is a strong necessity for significant efforts to be made to reduce the gap in employment rates and economic growth, especially in relation to more successful EU members.

Table 15: Labour market developments in Croatia, 2008 - 2012²⁷

	2008	2009	2010	2011	2012
Unemployment rate, %	8.4	9.1	11.8	13.5	15.9
Unemployment rate of youth (less than 25 years), %	21.9	25.1	32.6	36.1	43.0

²⁷ Source of data: Eurostat

Long-term unemployment rate, %	5.3	5.1	6.7	8.6	10.3
Employment rate (20 - 64), %	62.9	61.7	58.7	57.0	55.4
Employment rate of women (20 - 64), %	55.2	55.4	53.0	50.9	50.2
Share of self-employed in total number of employed (20 - 64), %	17.6	17.4	18.1	17.7	16.4

From a broader perspective, today's labour market situation in Croatia is a consequence of a wider set of socioeconomic developments in the last two decades, indicating that the current labour market imbalance is of structural nature, urging for a structural reform. The opportunity costs of transition from planned economy to market economy, accompanied by significant deindustrialization, have caused structural imbalances on the labour market. In the recent years, the structural problems re-emerged in the economic crisis, resulting in higher redundancy in restructuring sectors (especially within the enterprises which are in the process of privatization), reinforcing a foundation for **long-term unemployment**. In the crisis period 2008 - 2012, the annual average of long-term unemployment rate increased from 5.3% to 10.3%, which is the third highest rate in the EU [74]. The group of people who are long-term unemployed are exposed to the risk of poverty and social exclusion, since the time lag and the obsolescence of knowledge and skills makes them less competitive on the labour market and therefore reduces their employability.

One of the main challenges of the employment policy in Croatia in the next medium-term period remains to fully implement **labour market reform** that will reduce the rigidity of the labour market, increase the employability of the working-age population, reduce the share of informal economy and thereby contribute to the increase of employment and productivity of the labour force. The envisaged measures needed in the employment policy are also linked to other policies related to achieving strategic goals of the Croatian economy, such as improving the quality of education system, effectively encouraging life-long learning, modernizing the social services and enhancing competitiveness by increasing the allocations for research and development and relying on modern technologies.

The lack of effective interaction of labour market and education system negatively affects the employability of the working-age population, outlining a constant need to match the labour market skills supply and demand. Data on the structure of vacancies and newly unemployed indicate the existence of discrepancies between supply and demand in terms of activity and education. Therefore, the success of improving the labour market situation through the implementation of the reform processes lies in the simultaneity of the education reform (especially through the implementation of the Croatian Qualification Framework) and the science and innovation system reform. This includes life-long entrepreneurial learning and entrepreneurial skills/competences development, as a precondition for boosting competitiveness of SMEs and increasing number of opportunity driven start-ups. The potential of well-educated labour force and life-long learning could be utilized more effectively to ensure that the acquisition of competences are in line with the labour market needs, especially given the fact that there exists a growing demand for highly skilled workers, primarily in the production sector, where there is a lack of workers with practical skills.

In addition, the **level of self-employment remains inadequate to contribute to the improvement of labour market situation**. In the period 2008–2012, the share of self-employed persons in the total number of employed aged 20–64 decreased from 17.6% to 16.4% [75]. On the one hand, the negative trend reflects the lack of effective measures to develop the competences needed to support self-employment, and on the other hand, it reflects the administrative obstacles to the favourable business environment in general.

The public labour market institutions need further improvement in order to efficiently fulfil their role of the intermediary between labour supply and demand, in order to address national,

regional and local labour market disparities. While there are no significant differences regarding the unemployment rates between the two regions of Continental Croatia and Adriatic Croatia (NUTS 2), they do exist on the county level (NUTS 3). In 2012, the lowest unemployment rate was recorded in the City of Zagreb (8.7%) and Istria (8.9%), while on the negative side the highest unemployment rate was recorded in Sisak-Moslavina (32.7%) and Virovitica-Podravina (33.4%) [76]. Significant disparities also indicate low mobility of population and limited accessibility of employment services.

Efficient **active labour market policy (ALMP) measures** are important instrument of the employment policy. Although ALMP measures are recurrently adapted to changes on the labour market and upgraded in line with labour market needs, no comprehensive system of evaluation is in place. Qualitative labour market data collection, arrangements of professional up-to-date analyses, foresight capability and exchange of information among labour market institutions on all levels need to be improved. The Croatian Employment Service (CES), as the key actor on the labour market, needs to be reorganized and strengthened in order to better satisfy regional and local specific needs through sound implementation of targeted ALMP measures and provision of career guidance services and job matching, in partnership with local stakeholders.

Certain specific groups of population are especially affected by the negative economic situation and face severe labour market integration difficulties, making it necessary for further efforts to be made in order to increase employability of these vulnerable groups [77]. **Women, young people and the elderly are particularly underrepresented in the labour market.** In terms of age groups, employment rates are extremely low for young people, as well as for people aged 50 - 64.

Young people outside the education system have extreme difficulties in finding employment. In the period 2008-2012, the **youth unemployment substantially increased** from 21.9% to 43%, which is again the third highest rate in the EU, right beneath Spain (53.2%) and Greece (55.3%) [78]. A similar negative trend is present in the age group 15 – 29, where in the same period the unemployment rate increased from 15.5% to 31.7% [79]. In addition, in 2008, 11.5% of young people aged 15 – 29 belonged to the group of people not in employment, education nor training (NEET), while in 2012, this share increased to 18.8% [80]. A **Youth Employment Package (YEP)** was proposed by the European Commission in 2012, which includes a proposal to Member States to establish a **Youth Guarantee Scheme (YGS)**, adopted by the Council in 2013. The **Youth Employment Initiative (YEI)** with a joint budget of EUR 3 billion at EU level was put in action to reinforce the measures in the YEP. The YEI particularly supports young people not in education, employment or training (NEET) and the set up of YGS. The YEI funds are to be used by MS complementary to ESF and other national projects aiming to support youth employment. Croatia too will through the Youth Guarantee Implementation Plan implement the YGS in the framework of YEI, alongside developing career guidance services in both the educational and employment sectors, which would support the development of career management skills important for young people who find themselves excluded from the labour market.

Demographic trends and aging of population in Croatia have negative impact on the labour market, as well as on the public finance sustainability. The inability of the elderly people to find employment often results in moving to inactive population. Adapting workplaces and facilitating longer working lives and active and healthy ageing would increase the participation of older workers in the labour market. From the gender perspective, activity and employment rates are lower in the female population. Although the gender gap is around the EU average, the employment rates are low for both women and men; in 2012, the employment rate for women aged 20–64 amounted to 50.2%, compared to 60.6% for men [81]. Women often face difficulties in entering the labour market due to insufficient childcare provision and inflexible working hours, as well as due to the gender discrimination in general, especially for women facing multiple discrimination (e.g. on the ground of ethnic origin and gender, like Roma women). The care responsibilities and the inflexibility of working time indicate the need for further efforts in reconciliation of work and private life. The LFS data showed that in 2010, only 9.5% of employed aged 15–64 stated that it is generally possible for them take the whole day off for family reasons, which is significantly lower than 33.1% of the same group of people in the EU-27 [82].

Civil society organizations are important stakeholders on local level in the area of provision of community-based social services and also of provision of individual support and counselling for unemployed. Volunteering is still not adequately recognized as important catalyst for strengthening employability of vulnerable groups and therefore capacities of civil society organizations and other non-profit entities need to be further strengthened for organizing effective volunteer programs. In addition, additional impetus needs to be given to strengthening social economy and social entrepreneurship as a way of empowering socially excluded groups for more effective integration into the labour market.

Quality, relevance and accessibility of education

The education system in Croatia insufficiently reflects society's requirements of education and needs of the labour market. **Curricula and programmes are often outdated and poorly aligned with the demand of the labour market at all levels of education and most prominently in the vocational education and training (VET)** where as much as the majority of about 200 programmes is classified as such. Yet at the same time large majority of regular secondary education students (ISCED 3 and 4) is enrolled in one of the VET programmes (70.7% in 2011) and the largest proportion of the unemployed are persons with secondary level education (around 62%).

Furthermore, the **programmes** lack opportunities for work-placements, apprenticeship schemes and engagement in practical activities outside schools and universities, which additionally leads to reduced employability of the newly educated and supplies the labour market with the work force possessing the knowledge, skills and attitudes that are not synchronised with the latest developments of the economy and trends on the labour market. Although certain system documents such as the National Curriculum Framework, clearly try to transform educational practice towards student-centred teaching, dominant teaching style in the classroom is still lecture- and teacher-centred which by its nature does not take into account individual differences and specific educational needs of students.

Croatia's education system performs well in terms of the number of early school leavers but **educational outcomes** both at primary and secondary level are relatively **weak in international comparison (PISA, TIMSS and PIRLS)**. The educational achievements of 15-year-old students in reading, mathematics and science literacy skills are significantly below OECD countries' average [83]. This indicates that **primary and secondary level do not augur well for the quality of education** and reflect the need for substantial curricular reform accompanied by improved initial and continuous teacher education and training.

Primary and secondary schools in Croatia are significantly lagging behind in the process of informatisation compared to the European standards. Only 17% of all schools in Croatia are connected to very fast Internet. Furthermore, even those that are connected often are not able to exploit fully the potential it provides due to the outdated ICT equipment as well as inadequate number of computers/laptops/tablets per pupil [84]. Opportunities to improve quality, access and equity in education and training, arising from the application of new technologies, informatisation of learning, teaching and administration processes at all levels of education, and practicing ICT oriented teaching techniques and methods, especially in the implementation of practical skills training in schools' workshops, are insufficiently explored. The same applies for the availability of ICT oriented teaching at tertiary level.

Limited participation of the adult population in education and training, as well as unsatisfactory level of quality and relevance of available programmes, poses an additional obstacle to improving the employability and the qualification level of the labour force. The share of adults participating in lifelong learning is among the lowest in EU-27; in Croatia in 2012 2.4% of population between 25 and 64 years of age participated in education and training, while the participation rate of 9% was registered in EU-27 [85]. The key problem is the lack of motivation due to limited supply side of LLL measures, flexibility and lack of successful learning experience.

Low rates are registered also in relation to the **participation in early education**. In 2012 in Croatia, 71.1% of children between 4 years of age and the starting age of compulsory education participated in pre-primary and other early childhood care and education programmes. The average of EU-27 for the same year was 93.2% and is expected to increase to 95% by 2020 [86]. indicating the importance of early education for the integrated development of children, later educational success but also the development of culture of lifelong learning. Exceptionally large regional differences in the coverage of children by preschool programmes, in the indicators of their quality as well as lack of specialized educational staff (i.e. psychologists, educational specialists) important for early detection of learning difficulties still exist in Croatia.

In recent years Croatia has taken a number of substantial steps to improve the effectiveness and efficiency of its educational system and to establish conditions aimed to ensure an equal access to quality education for all students at the level of preschool, primary and secondary education at the whole territory of Croatia. Vulnerable groups face difficulties especially because they are mainly poorly educated, without adequate basic skills or working experience, and because they usually live in poor socio-economic conditions or at geographically isolated areas.

Application of learning outcomes approach at all levels is low, often even non-existent. Institutions lack practical experience in defining qualification standards based on competences and learning outcomes, designing curricula, defining the role of teachers in the system based on learning outcomes and assessment of learning outcomes. Further limitations to the development of relevant and efficient education system arise from the fact that **knowledge, skills and competences acquired outside formal system of education remain inappropriately valued** for enabling individuals to obtain a qualification, facilitate progression in the labour market or continue further learning and obtain further qualification on the basis of validated non-formal and informal learning.

On-going **implementation of the Croatian Qualifications Framework** is expected to significantly contribute to closing the existing mismatch between education and labour market and adjusting the education policy to the present and future needs of the labour market by regulating the system of acquiring and certifying learning outcomes in Croatia and by setting up a system for monitoring and analysing the labour market needs as the basis for the adoption of policies on employment, education and economic development and the adjustment of the curricula to the identified needs. This will also provide a clear direction in which the on-going curriculum reform will be continued in order to reflect the changes in the economy, reduce the existing skills gap, provide the students the possibility to obtain the qualifications, through different pathways, that will enable them to actively participate in the labour market. Development of relevant and targeted education programmes is also highly dependent on the **cooperation between the education sector, research and businesses and greater involvement of economic (e.g. chambers) and social partners** in the process, which currently **remains weak**.

Although the progress has been achieved in terms of tertiary education attainment rate in the recent years, **the rate of population aged 30-34 with a tertiary level education** of 23.7% in 2012 is still significantly **below the EU average** of 35.8% for the same year [87]. 59% of total students enrolled in higher education institutions (HEIs) in Croatia successfully complete their studies, while 41% of students drop out of studies, mostly in the early stages of study. Number of students enrolled in STEM and ICT or in the field of health and social care is lower than in the EU and students aged 25-34 are most prevalent in social sciences, business and law, and in the service area. **Tertiary education attainment remains challenging for certain groups of students, namely students with socio-economically unfavourable backgrounds, disadvantaged learners** and non-traditional students since the opportunities for their inclusion and effective participation in education are limited. The provision of scholarships is also quite low compared to other EU countries. Only a minority of students receives state funded grants (4.5%) and there are no loans, tax benefits for parents or family allowances [88]. In addition, the students have very little or no access at all to academic and career guidance services, since they are generally not included in the standard provision of HEIs.

The higher education system is also insufficiently internationalized and characterized by low output and input mobility (students and teachers, only 1.8%). There are just a few programmes provided in

foreign languages at the HEIs in Croatia, while programmes offering joint degrees are almost non-existent.

Due to the economic crisis and cutbacks, investments in R&D have somewhat decreased during the last few years. Croatia is also among the countries in which the number of researchers employed by the public sector surpasses private sector R&D employment, which goes contrary to the ratio in most EU countries. As already discussed under the heading *Research and innovation*, around 80% of researchers are concentrated in the public sector, while the business enterprise sector employs only 19% of researchers. In addition to that, existing doctoral studies are insufficiently performance oriented which is especially seen in lack of participation of Croatian research institutions and research teams in different international associations.

Insufficient focus on the quality of education, reflected in the general lack of comprehensive and efficient quality assurance system currently lacking at all levels, poses an additional obstacle for ensuring flexibility of the education system, enhancing the quality of teaching and learning and improving education governance.

The education system in terms of education and training infrastructure (including all levels - early childhood, pre-school, primary, secondary, and tertiary) is unequally developed at regional and local levels. The analysis of the current network of schools, programmes and student housing clearly indicates their suboptimal organisation and distribution which does not necessarily fit neither the needs of the students nor geographical, economical and demographical particularities of the territory of Croatia. Therefore, recently initiated restructuring of the network of schools and programmes, aims to design the guidelines for its functional and rational transformation allowing for the implementation of investments in the education infrastructure in order to tackle the issues of unsatisfactory material and spatial conditions, sports and cultural facilities, digital maturity.

Poverty and inequality

Croatia is among the EU countries with the highest at risk of poverty or social exclusion rate. High unemployment and low labour market participation, coupled with raising costs of living, have increased the share of population living at risk of poverty or social exclusion in Croatia to 32.3% in 2012 (1,370,000), significantly higher than the 24.8% EU-27 average. Older women are particularly vulnerable as 37.8% of women aged 65 or above were at risk of poverty or social exclusion in 2012 (compared with 26.9% of men of the same age); the figure rises to 43.2% for women aged 75 or above (31.8% for men). The pension system, in combination with the relatively short duration of working lives does not seem to ensure adequate protection in the old age and to address effectively the challenge of aging population.

At risk of poverty rate after social transfers in 2012 was 20.5% while the **highest rates** were registered **among** the following groups, taken into account their activity status: **unemployed** (42.9%), **economically inactive** (31.9%) **and retired** (21.8%). The risk of poverty rate in 2012 among the employed population was 6.1%. The Strategy for Combating Poverty and Social Exclusion in the Republic of Croatia 2014-2020 [89] recognizes other groups of population that remain vulnerable to poverty, social exclusion, different forms of material deprivation and consequently discrimination such as older persons, single households, one-parent families, families with more than 2 children, children without adequate parental care, persons with lower education attainment, persons with disabilities, Croatian war veterans and victims of war and members of their families, returnees and displaced persons and ethnic minorities (mainly Roma and Serbs).

Material deprivation rate as the most common result of living in poverty and at risk of poverty is also well above the EU-27 average; in 2012 the rate of severe material deprivation in Croatia was 15.4% in comparison to 8.8% registered in EU-27.

The expansion of population at risk of poverty and social exclusion in the recent years is followed by an **increase in the number of users of social benefits and growing demand for social services.** However, the total expenditure on social protection in 2011 was 20.6% of GDP, which represents a

decrease by 0.2% and 0.4% in comparison to 2009 and 2010 respectively. For the same year EU-27 average was 29%. Measured against the results achieved in alleviating the risk of poverty, **the effectiveness of social transfers in Croatia is also below the EU-28 average**; social transfers, including pensions, in 2012 reduced the risk of poverty rate by 55,1% in Croatia (from 45,7% to 20,5%) and by 61.5% in EU-28 (from 44,1% to 17%).

Moreover, **quality, scope and delivery mechanism of social services provided to users in vulnerable positions are not well adapted to their diversified needs and the changing environment**, such as ageing of population, increased number of users, and different user profiles. The social welfare system is unequally developed at different levels where the services are provided and across the regions [90], which leads to significant differences in access to services and reduces the effectiveness of service provision. It is often overloaded with requirements and does not dispose with sufficient capacity to provide personalized and integrated services especially for specific user groups (such as children without parental care, children and youth with behavioural disorders, and persons with disabilities), but also to offer them all the relevant information regarding their rights. Significant limitations in the system are even more present in relation to availability of community-based services.

These challenges are being addressed by the **on-going reform of the social system**, outlined in the Strategy for Social Welfare System Development 2011-2016 leading to the modernization and adequacy of the system, on the one hand by aiming to increase its transparency, effectiveness and to allow for better targeting of social benefits and on the other, by addressing existing regional disparities in terms of quality and availability of social services, and community based support for the active inclusion of vulnerable groups present at regional and local level. The latter is also supported by the ongoing implementation of the Plan for the Deinstitutionalization and Transformation of Social Welfare Homes and Other Legal Entities Performing Social Welfare Activities in the Republic of Croatia 2011-2016 (2018) [91], which is a plan within social welfare system related to process of shifting from institutional to community based care, as well as by local social planning, namely through development of Counties Social Plans [92], aiming to support the development of services that are lacking in the community and ensuring the sustainability of the deinstitutionalization process.

Areas most affected by poverty correlate with those identified as assisted areas based on the development index [93]. They are characterized by higher unemployment rates, lower income and own source revenues per capita, lower education attainment rates, depopulation, lower living standard and poorer housing conditions which reflects slower economic and social development in these areas, less job and education opportunities, uneven transport connectivity, limited availability of basic infrastructure and consequently results in increased vulnerability of the population to poverty in comparison to urban settlements.

Significant impact on increasing social exclusion of vulnerable groups is also generated from **different forms of discrimination** to which they are exposed in everyday life. Although the regulatory framework for equal treatment and provision of equal opportunities is in place, the fight against discrimination and the implementation of various anti-discrimination measures such as promotion of human rights and awareness raising on discrimination [94] remains rather limited, as is the involvement of civil society organisations in strengthening public debates and awareness raising and education of experts dealing with discrimination issues.

Very specific to Croatia is the fact of recent direct experience of war (1991-1996) which means Croatia is the only post-conflict Member State of the EU with multidimensional consequences of war regarding increased risk of social exclusion. Also, specific are categories at increased risk of social exclusion such as war veterans and war victims, refugees, internally displaced persons (IDPs), returnees etc. In the Croatian Homeland War more than 150.000 homes and estates and over 25% of the Croatian economy were destroyed and direct damage in Croatia amounted to EUR 32 billion. More than 21,000 lives were lost, 57,890 Croatian Veterans suffered organism damage greater than 20% and have determined status of Croatian Disabled War Veteran and 1,663 Veterans and civilians

are still considered missing. Since the end of the conflicts, it is estimated that 354,594 people have returned to Croatia, to new or improved housing at their former place of domicile. They have been supported to find replacement housing mainly through a mixture of national and international donor resources and their own input. Since the end of the conflicts, it is estimated that 354,594 people have returned to Croatia, to new or improved housing at their former place of domicile. They have been supported to find replacement housing mainly through a mixture of national and international donor resources and their own input. Currently approximately 3,000 households have expressed a desire to return to Croatia and/ or still hold IDP/ refugee/ returnee status and need to be re-housed. Around a quarter of these are elderly and some have additional special needs. Although Croatia is a signatory to the Regional Housing Programme [95] the country's accession to EU membership renders it ineligible for support from that Programme beyond the current approved commitment. Croatia therefore needs to use the ESI Funds to address poverty, and social inclusion, while also supporting the needs of its remaining IDPs, refugees and returnees.

Healthcare quality and access

The level of total health expenditure [96] as % of GDP in 2011 remains lower in comparison to the EU average (7.8% and 10.1% respectively) while the majority of funding is invested from the public sources (84.7% in Croatia and 77.1% in the EU) [97]. The share of expenditures for prevention in 2010 was also lower in Croatia than in the EU countries, and it amounted to only 0.68% of the total expenditures for health care, while in the EU countries that share was 2.68% [98].

According to statistical data and the World Health Organisation Croatia has relatively poor main public health indicators. The existing system of healthcare does not address comprehensively the arising challenges and **healthcare services provided do not target the needs of the population timely and in the most efficient way**. There are also significant regional differences in health indicators. However, the health insurance coverage of the population is very high (95%).

Availability of care is often limited and uneven across the country, namely due to distance but also to the lack of health care workers. In 2011 there were 281 physicians per 100,000 inhabitants. The number has increased in the past 10 years but is still less than the EU average (320/100,000). The situation is the same with the number of nurses per 100,000 inhabitants, which in 2010 was 569 but is still below the EU average (782/100,000) [99]. In the structure of permanently employed in 2011, the largest portion of healthcare workers has high school degree, amounting to 38% (29% of nurses and 9% of other workers), while medical doctors make up 17% [100]. In the total number of healthcare workers, nurses also make up almost half of them (46%).

Furthermore, **the healthcare system in general is characterized by inefficient and ineffective network of healthcare institutions, inappropriate distribution and mobilisation of capacities at different levels of care, underperforming system management including insufficient focus on quality standards, fragmentation, low level of ICT solutions in use, resulting in reduced financial sustainability of the system, inadequate communication and information connectivity between its different parts and finally in reduced access to services for the patients and unsatisfactory quality of healthcare provided**. Although the overall territorial distribution of hospitals is good (90% of the total population live within 50 km from a hospital), these problems become even more evident at county level where the lower quality and limited access to services, as well as the inappropriateness of local health care infrastructure tend to be more emphasized in particular at the level of primary care.

Croatia also **lags behind in ensuring the shift from institutional to community-based healthcare services**, which predominantly for vulnerable groups, results in rather unsatisfactory level of care. Furthermore, the involvement of the private sector and the civil society in the field is also quite unexploited. On-going functional and territorial rationalization of the healthcare system, as envisaged in the National Healthcare Development Strategy 2012–2020, is expected to provide the framework for the modernization of the system and to systematically address the identified key problems making the healthcare in Croatia more efficient and responsive to contemporary and future health care needs of population by equally focusing on the implementation of efficient

investments into health care infrastructure and related services, and development of human resources.

Public governance and administration

The public administration and judiciary in Croatia are lagging behind in terms of efficiency, effectiveness, transparency and accountability in provision of public services. Inefficient public governance on central and local levels with burdensome regulatory framework, unsatisfactory implementation of public policies and delivery of quality public services are major challenges that Croatia still faces despite a variety of administrative and regulatory reforms that have taken place in recent years.

Public administration is complex, given the large number of budgetary and extra-budgetary users, its organization and a large number of local and regional self-government units. A comparison with EU-27 indicates a lag in efficiency and effectiveness of public services delivery as well as regulatory quality (Tables 16-17). Considering the fact that public administration plays a major role in social and economic development through reallocation of resources, regulation and service delivery, strengthening its capacities and efficiency are prerequisites for successful implementation of reforms and effective investments.

Table 16: Regulatory Quality Indicator²⁸ Croatia 2008-2012 (percentile rank 0 to 100%)²⁹

	2008	2009	2010	2011	2012
Croatia	65.5	70.3	69.9	70.1	66.5

Table 17: Government Effectiveness Index, Croatia 2008-2012 (percentile rank 0 to 100 %)³⁰

	2008	2009	2010	2011	2012
Croatia	71.36	71.29	70.33	70.14	72.25

Croatia has a **burdensome regulatory framework and complicated administrative procedures**, which limits stronger economic development and competitiveness, burdens foreign investments, doing business and decreases people's confidence in public administration and judiciary's effectiveness and efficiency. The quality of public administration in Croatia (70% in 2011) lags behind the EU-27 average (85%) and the EU-10 (81%).

In terms of effectiveness of the public sector in ensuring simple and stimulating business conditions Croatia lags behind the EU countries. The government effectiveness ratings in Croatia (69%) are still below EU-27 (82%) and EU-10 (75%) average. According to the Corruption Perceptions Index of Transparency International in the year 2012 (CPI 2012) Croatia was rated poorly, although some improvements on the rating scale have been noticed during past few years.

Table 18: Corruption Perceptions Index (CPI) 2008-2012 (0 complete corruption to 10 no corruption)³¹

	2008	2009	2010	2011	2012
Croatia	4.4	4.1	4.1	4.0	4.6
EU-27	6.5	6.4	6.3	6.3	6.4

More vigorous establishment of the rule of law implies among other things enforced regulatory framework, more effective functioning of judiciary, and efficient protection of property rights, financial stability and discipline and control of corruption. All these elements positively affect the

²⁸ A measure of quality regulations of the World Bank reflects perceptions and attitudes about the ability of governments in formulating and implementing those policies and legislation that allows and encourages private sector activity

²⁹ Source: The World Bank, available online at: <http://info.worldbank.org/governance/wgi/index.aspx#reports>

³⁰ Source: The World Bank; available online at <http://info.worldbank.org/governance/wgi/index.aspx#reports>

³¹ Source: Transparency International

overall social and economic development and should therefore be given particular attention. In these areas further improvements are needed In Croatia in order to strengthen the rule of law, to encourage the entrepreneurship and to increase overall people’s trust in the government.

Efficient judiciary encourages economic and social development of the country by stimulating creation of business-friendly environment and diminishing the uncertainty for its citizens. The Croatian justice system comprises of a number of institutions including the Ministry of Justice, which has responsibilities in reforming the entire system [101]. Currently there are 208 judicial bodies, of which: 67 municipal courts (34 of which have the criminal jurisdiction), 61 Misdemeanour Courts, 33 municipal State Attorney's offices (they follow the network of Municipal Courts which have criminal jurisdiction). At the beginning of 2014 further steps related to the optimization of judicial and state attorneys network have been taken with the aim to set up a network consisting of 95 judicial bodies [102]. Rationalization of the court network, which started in 2008, has significantly reduced the number of courts in Croatia from 255 in 2008 to 158 courts at the end of 2012. In 2008 there were 5.8 courts per 100,000 inhabitants and in 2010 this number was reduced to 3.5. According to the CEPEJ 2012 Report, Croatia had 42.8 judges per 100,000 inhabitants (2010). For these reasons, it is important to continue to support the rationalization of the court network and judicial system reorganization.

Table 19: Number of judges (per 100,000 inhabitants)³²

	2008	2010
Croatia	42.5	42.8
EU-27	19.4	21.3

One of the key elements for effective and efficient public administration and judiciary are flexible, motivated and high-competent human resources. **Croatia faces weak institutional capacities at all levels of governance and unsatisfactory human resources management of public administration and judiciary.**

Public administration and judiciary are predominantly processes oriented with narrow sectorial approach procedures. Therefore, it is necessary to shape the system towards more result orientation and better coordination by enhancing its administrative capacities. Professionalism in public administration and judiciary is a precondition of better implementation of public policies and delivery of quality public services to all the citizens and business entities. Therefore, professional and result oriented public administration and judiciary should be further supported and enhanced on all levels of governance in order to strengthen the overall efficiency and effectiveness. Also, stimulation of professionalism helps to increase people’s confidence in public administration and judiciary.

Despite numerous changes, **human resources management system in the civil service is an area with significant room for improvements at all levels because many of its elements are either non-existent or insufficiently developed.** Some of the main areas identified for improvement within the human resources management system are: recruitment process, competency system for given jobs, methodology for validation of competence of civil servants, the system of assessment and monitoring of civil servants based on monitoring the efficiency of their work and connection of that evaluation to the system of career development and progress. Emphasis is especially put on the need for more objective selection of the most competent candidates for promotion to management positions, opening wider range of options for different ways of career development with the aim to decrease turnover within and outside the civil service. In order to retain highly competent and motivated employees, it is necessary to develop and implement the reform of the system of rewards and promotion, which should be more functional and more applicable to the needs of modern public administration. Changing the perception of the role and duties of public servants and the awareness that their primary task is to provide fast and efficient customer service in order to

³² Source: CEPEJ Studies No.18, European judicial system, Efficiency and quality of justice, Edition 2012 (data 2010), Council of Europe

build confidence in the public administration, are essential elements of public administration reform defined in the Programme of the Government of the Republic of Croatia, 2011-2015. It is necessary to raise the expertise of employees in the public administration, to stimulate changes in their behaviour and ways of doing business as it is stated in Civil Service Human Resources Development Strategy for the period 2010-2013. This Strategy is aimed at developing human resources through improving the educational system, the system of recruitment and retention of quality employees.

There is weak involvement of civil society organizations (NGOs and social partners) in development and implementation of public policies in Croatia. Furthermore, there is a lack of capacities at the level of CSOs, insufficient culture of social dialogue as well as unsatisfactory level of coordination and partnership between all the key stakeholders. In order to strengthen social dialogue and policy making and implementation, it is necessary to improve the capacities of CSOs and to help them to become actively involved in policy-making and policy-delivery processes at all levels of government. Involvement of stakeholders in those processes has an incentive influence on the increase of transparency and trust in public administration and judiciary and their efficiency. For that reason further efforts should be made in order to strengthen the coordination between them. In order to increase contribution of CSOs to the development and implementation of public policies at local, regional and national levels additional investments are needed to strengthened their capacities and create an environment for more open, inclusive and effective governance models.

The economic importance of agriculture is relatively high in Croatia. Despite a declining trend in recent years, the agriculture sector accounts for 5.5% of GDP and 13.8% of total labour force [103]. A high share of population depends on agriculture and related activities for their livelihood. Despite favourable agriculture and climate conditions, Croatia is still a net importer of food. A **key challenge** for Croatia is to make its agricultural sector more productive and more sustainable.

One of the reasons underlying the inefficiency of agricultural production is the current structure of agricultural holdings. Relatively high number of registered agricultural holdings (233,280) is engaged in agricultural activities, but they utilise only approximately 1,316,010 ha of agricultural land. As a consequence, the average size of Croatian farms (5.6 ha) is considerably less than the average of per holding across the EU-27 (14.4 ha) [104]. Indeed, about one half (52.5%) of all holdings in Croatia are less than 2 ha in size, with the vast majority (89.4%) being less than 10 ha.

The average agricultural holding sizes and structure consequently point to the question their economic viability. The average economic size of an agricultural holding calculated on the basis of total production value expressed as standard output (SO) is EUR 9,064 per holding. Based on the total production value of an agricultural holding, about 89,480 (38.3%) of agricultural holdings belong to the economic size class below EUR 2,000 [105]. However, small agricultural holdings are also important from the standpoint of population size in rural areas, conservation and environmental protection, national cultural and traditional heritage of rural communities and the production of local products and those elements should be taken in account for planned interventions.

The data on structure, average holding size, and standard output (SO) of a holding indicate a low level of investment potential, and therefore a low level of technical and technological equipment. In order to improve competitiveness and economic viability of agricultural holdings, further technical and technological modernisation of agricultural holdings, and an increase of labour force productivity as well as it's education level are essential.

The negative economic trends that characterised Croatia's economy in recent years due to the financial crisis also affected agricultural production. The value of agricultural production in Croatia in 2012 was HRK 20.91 billion, which is a 1.76 % decline from the previous year [106]. The agricultural labour input in this period increased by 1.2%. The productivity of Croatian agriculture measured as a ratio of gross value added and labour input, as an average for the 2010-2012 period, was 6,368 EUR/AWU which is 58.2 % less than the average productivity of EU agriculture (15,223 EUR/AWU) [107].

The share of **crop production** in the total value of agricultural production was 59.6% in 2012 [108]. The productivity of crop production is relatively low and the yields of basic crops are below European levels. **One of the key problems in crop production is insufficient irrigation, which, in addition to increasingly frequent droughts on average every three to five years, results with significant damage to crop production and depending on their intensity and duration, can reduce crop yields by 20-70%.** The underdeveloped infrastructure for water supply to agricultural land is a definite contributing factor substantiated by the fact that only 1.1% of utilised agricultural land is irrigated. Thanks to favourable climatic, hydro geological and hydrological features and in proportion to small population, water use opportunities in Croatia are very favourable. The available quantities of water are 15,000 m³/person/year on the average from rainfall, more than 7,000 m³/person/year from renewable reserves of groundwater and over 30,000 m³/person/year from rivers, which flow into Croatian territory from the neighbouring countries.

Average yields are lower than those of EU countries due to outdated technologies and frequent droughts. Due to this condition, the foreign trade balance of Croatia is negative, and the country is a major importer of **fruit and vegetables**. This state of the fruit and vegetables sector indicates there is a need for investments in technical and technological modernisation, for the introduction of new technologies of production, storage, and preparation of products for the market, and for the promotion of production and market organisation of producers, all with the common aim of improving overall productivity of the sector.

The share of **livestock production** in the total value of agricultural production was 35.8% in 2012, which, in comparison to the EU-27 where this share is 40.8%, suggests that the structure of agricultural production in Croatia is unfavourable. The fact that in 2012 there were 0.62 livestock units (LSU) per 1 ha of used agricultural land, and in relation to the total available agricultural land this ratio was even lower, illustrates that the level of development of livestock production is still unsatisfactory. There are 0.78 livestock units per 1 ha of used agricultural land in the EU-27 and 0.89 LSU per 1 ha in the EU-15 [109].

The most prominent shortcoming of livestock production is a large number of small unspecialised family farms which have an unfavourable age structure, knowledge level, and technological equipment, in addition to unorganised and difficult market access, all of which impacts their competitiveness and causes their numbers to dwindle. It is necessary to provide appropriate measures in the coming period, which will preventively act against further decline of their efficacy and existence. With Croatia's accession to the EU, this situation became even more difficult because the farms are not sufficiently adapted to meet the new Community requirements regarding animal health and welfare and environmental protection, which only adds more pressure regarding investments in this sector.

Apart from economic viability and structural problems of Croatian agriculture other socio-economic aspect should be taken into account as well. Farming in Croatia is predominantly a family business. In 2012, 93.2% of the agricultural labour forces were farmers and/or members of their families what is considerable more than the EU-27 average (76.6%) [110]. Furthermore, according to the farm structure survey carried out in 2010, a total of 513,680 people worked regularly in the Croatian agricultural industry. Many of these people were family members helping out on the farm, but having their main employment elsewhere. Taking into account the actual work performed on the farm, it is estimated that some 179,290 people work fulltime as regular agricultural labour force.

Data from the 2010 Research on the Structure of Agricultural Holdings in the Republic of Croatia indicate an extremely **unfavourable educational structure of farm holders**. Only 4.96% of farm holders in Croatia have attained agricultural education, while the EU-27 average is 29.59%. In Croatia, agricultural education is provided through formal education institutions at two levels: high schools and at college/university level. The existent developed formal educational infrastructure is accompanied by a lack of programmes offering non-formal education and vocational training.

The agricultural sector is one of the major sources of greenhouse gases in the atmosphere, mainly from energy consumption (carbon dioxide, CO₂), intestinal fermentation of livestock waste and manure management (methane, CH₄) and from consumption of mineral fertilizers (nitrous oxide, N₂O). In 2011, GHG emissions from agriculture amounted to 3,318,52 Gg CO₂-eq, which represents 11.75% of total national emissions [111,112]. This is a slight decrease in relation to 2010, but also the continuation of a trend of reducing emissions from the agricultural sector caused by the reduction of livestock and the consumption of mineral fertilizers and more intensive introduction of good practices on agricultural holdings. Investments in more efficient and more environment friendly agriculture are anticipated, especially in organic agriculture and various agri-environment-climate measures to reduce emission of greenhouse gasses and to protect environment.

In the **food processing industry** as a very important counterpart of agriculture sector, there are more than 1,200 business entities registered, which employ about 49,000 workers, of which 70% work in companies that belong to the category of medium-sized and large companies. Only 3% of business entities are in the category of large companies, however they have about 70% of the market share in total income of the food-processing industry. In that regard, more than 90% of subjects are small companies (<50 employees). Such structure causes poor competitiveness. The global crisis has also negatively affected the sector (in 2009 there was a major decrease in production, increase of costs and decrease of investments) [113].

According to the groups of food products, the largest proportion (25.3%) goes to processing of all types of meat and meat products, then (19.1%) to mill, bakery and pastry products, cakes, biscuits

and pasta, while (17.3%) goes to milk, cheese and dairy products. Most of the drinks (43.8%) were soft drinks and water, then (33.2%) beer production, while wine made from grapes amounts to (13.8%) of production value.

Given this structure of the food-processing industry, the positive trade balance is present only in nine product groups (homogenised food preparations and dietetic food; sugar; spices and food supplements; tobacco products; malt; beer; soft drinks and water; meat products and poultry meat; ice cream). Coverage of imports by exports in food products is only 52.4%, and only export that exceeds import are those of beverages and tobacco products [114].

Competitiveness of Croatia's food processing industry in relation to EU-27 is very low [115], as evident from the following indicators:

- Small proportion of the value of domestic production (*0.5% of the value of production, 0.5% of turnover, 0.6% of value added and 0.6% of gross operating surplus in relation to EU-27*)
- Lower value of domestic production efficiency (*-61.2% in turnover per employee and -55.2% in labour productivity compared to the level of EU-27 average*)
- Lower levels of investment (*-49.3% in relation to average levels of EU-27*),
- Higher costs per employee (*23.5% in relation to EU-27 average*) [116].

Until July 2013, the market of CEFTA countries covered approximately 45% of the export market for agricultural and food-processing industries. With Croatia entering the EU single market and changing the trade regime for agri-food products an expected partial loss and decrease in exports to these markets occurred. **Therefore there is a strong need to focus on new markets, creating new recognizable food products for both common and global market, and the need to establish an effective system of marking products and stronger marketing of agri-food products.**

Forestry has a significant influence on the development of rural areas, although its share in the national GDP is only 1.11%. The total area of forests and forestland in Croatia is 2,688.688 ha, accounting for 48% of the total land area, with 78% of forests and forestland owned by the state, while 22% is privately owned. Sustainable forest management in Croatia has a centuries-old tradition of preserving and improving the protection of biodiversity and beneficial functions of forests (forest ecosystem services) and as the result, 76% of forest areas in Croatia are FSC certified [117].

Similar to agriculture, the forestry sector has significant structural problems, especially privately owned forests. The average size of private forest holdings is only 0.43 ha due to fragmentation and continuous size degradation [118]. 60% of privately owned forests do not have forest management plans developed. To remedy the current situation it is necessary to raise the quality of forests, to construct and restore forest roads (current forest road density: 6.5 km / 1,000 ha), regulate the market of wood products and biomass, consolidate forest ownership, develop forest management plans, increase investments in resilience, environmental and economic value of forests [119].

On the other hand, forest fires and mine contamination of forest soil represent the biggest threat to forest ecosystems and are one of the biggest obstacles for sustainable management of forests and further development of the sector. In Croatia about 90,000 hectares of forests and forestland have been affected by fire in the past ten years, which is an average of 9,000 ha per year [120]. Around 80% (46,000 ha) of the total mine suspected area is represented in forest and forestland preventing sustainable management and causing degradation of forests.

One of the opportunities for the forest sector is to increase the utilization potential of forest biomass. According to the goal set in the Energy Strategy of the Republic of Croatia, energy consumption from renewable energy resources should raise to 20% by 2020. The potential to generate biomass is 2,75 million m³ in forests and 1,5 million m³ in wood processing industry [121].

Wood processing and furniture production are important counterparts of the forestry sector [122], whose structure is dominated by small business entities [123]. Promoting the use of wood as renewable and environmentally friendly material in the construction industry and small and

traditional crafts is prerequisite for the survival and development of rural areas. Wood processing is characterized by low productivity, profitability and level of finalization and lag in technological development due to the lack of investment in new, more efficient and environmentally friendly technologies. In 1990 there were 35,060 employees working in wood processing industry, while in 2011 that number dropped to 10,839 employees [124].

Maritime, fisheries and related coastal development

The fisheries sector is very important to Croatia. Despite its small share of GDP, it contributes to the positive foreign trade balance and it is significant in terms of employment opportunities on the coastal areas and islands, where fishery sector is one of the rare activities that provide a source of income throughout the year. Estimates of direct share of fisheries in GDP vary between 0.2% and 0.7% [125]. However, the contribution of fisheries has to be analyzed taking into account the share of GDP of all activities somehow linked to the sector (construction and servicing of vessels, production of fishing gears and equipment, transport, storage and related logistics, port activities related to fisheries and to a certain extent some forms of tourism). **The main strategic objective in the fisheries sector is to achieve a competitive, modern and dynamic fisheries and aquaculture sector through sustainable exploitation of resources.**

The Croatian Fishing fleet consists of 7,791 vessels (out of which 3,500 vessels were transferred from the non-commercial category of subsistence fishery into the commercial one after accession). The largest percentage of fleet (81.29%) includes vessels less than 12 meters in length. Total strength and tonnage of the commercial fishing fleet in Croatia was 326,987 kW and 44,998 GT in 2011 [126]. The largest number of vessels is registered as multi-purpose (45.24% of the fleet). These vessels are typical for Mediterranean fisheries where there are no clearly defined target species and in which fishermen change gear during the year. In 2011 the total catch by purse seines was 64,389 tons achieved by 226 purse seiners. In the same year, 562 vessels were active in bottom trawling, catching a total of 4,275 tons of marine organisms [127].

The average age of Croatian fishing fleet is more than 30 years, but it is not equally distributed among all fleet segments. Average active trawlers are older than active purse seines, and the trawlers are among the oldest active vessels. It needs to be highlighted that most of the vessels are poorly equipped in terms of energy efficiency (old engines with high fuel consumption), product quality (lack of ice machines and adequate storage and cooling facilities on board) as well as equipment related to improvement of working conditions and safety on board. Through implementation of fleet measures, including investments in fleet modernisation, temporary and permanent cessation, discard ban and implementation of measures aimed at achieving higher selectivity as well as measures of designation of specially regulated areas, Croatia intends to reach the goals of the CFP in the next period. Through these measures, it is envisaged that the MSY shall be achieved for key stocks and for those that are considered critical. Development potential exist for the sector through adoption of new technologies, new product development, diversification and introduction of a system of marking (labelling and branding), which can, using the existing strengths of the sector, guarantee the development of high-value products for the demanding niche markets. Close cooperation with scientific institutions and support of RDI is needed for supporting these development possibilities.

A particular opportunity lies in possibilities for further development of aquaculture, both marine and freshwater, as a backbone for development of the entire sector, for which Croatia already has capacities. Total water area used for freshwater aquaculture is 9,721 ha of ponds and 61,361 m² of raceways. Croatia has registered 28 warm water farms and 27 cold-water farms with production of 6,283 tons of freshwater fish. Registered number of farms for marine fishes is 64 and 254 shellfish farms with 3 marine hatcheries. Total production for marine aquaculture is 6,845 tons of marine fish and 438 tons of mussels and oysters [128]. Croatia sees the opportunity for further growth and development of its aquaculture in the growing market demand for high quality fish and other fisheries products as well as in excellent prerequisites in terms of spatial and climatic conditions. The same applies to freshwater and marine aquaculture. Croatia has many quality sites for fish farming,

both at sea and on land, particularly in terms of environmental standards, which creates a good foundation for the development of the entire industry.

Basic challenges for further development of this industry in Croatia are the placement of this activity within the coastal area and the fact that national production is not competitive. One of the priorities will be, *inter alia*, improving the system of spatial planning especially in terms of integrated coastal zone management in the context of which the aquaculture will be appropriately positioned in an area where there is great competition between different activities, taking into account not only the locations of the maritime area, but also the provision of sufficient space on land so as to accommodate the necessary infrastructure. Significant potential for labelling of fishery products as well as for development of tourist and recreational activities related to preservation of biodiversity, could be found in fishponds, which are part of the Natura 2000 ecological network. The importance of investing in these activities is recognized, as well as the need to ensure the conditions for increasing of competitiveness of this activity on the domestic market, on the European market as well as on the markets of third countries. Consequently, is important to enable investment in establishing new, as well as developing the existing aquaculture farms. With regards to the investments in existing farms, there is a need to introduce innovative technologies and development of new products as well as innovative approaches in management and production-related processes. An important component of the planned development of aquaculture will be introduction of new species, diversification of product range, but also the diversification of revenue and adding value to primary products, which is particularly interesting from the aspect of linking aquaculture as a primary production to processing. Also, it is necessary to in an appropriate manner include aquaculture elements in the development of an integrated maritime policy.

Tourism on the coast and islands represents an economically significant activity, especially with seasonal openings of additional market for different products, where fisheries products have a significant role. Additionally, fisheries in conjunction with tourism offer also an added value to the tourist service. According to the national strategic guidelines related to tourism development, the objective is to develop tourism offer through high value- added services. Also, it is important to emphasize that most of the mariculture segment is directly linked to the islands, and that it positively effects the development and sustainability of sensitive island communities. Areas and communities which traditionally depend on fishing and which even today have characteristics of "fishing villages" in Croatia, especially on islands, represent also a significant asset in terms of developing the tourism offer in general. Also, fisheries are one of the most important economic sectors for very delicate island communities, providing the basic or additional source of income all year around, in all of its segments - catch, farming and processing. At the same time, fisheries have a significant traditional cultural value, and as such is part of the identity of the islands' population.

With the improvement of the existing ports, landing sites, shelters, facilities and product storage, the fisheries sector has the opportunity to develop. Also, the opportunity for development is in need of organizing the sector (cooperatives and producer organizations). Port infrastructure currently does not fully meet all the requirements in terms of ensuring the necessary capacity (equipped landing sites with different facilities). Investing in port infrastructure as one of the key elements for positioning the national sector, and to generally ensure the implementation of measures of CFP. Improvement of landing facilities, as well as of cooling facilities shall increase energy efficiency and contribution to environmental protection, improved working conditions and quality of product landed Improvement of ports and landing sites are needed to support the obligation to land all catches as one of the priorities under CFP. Finally, all of the above could increase the consumption per capita of fishery products together with awareness for sustainably fisheries.

Emphasis should be placed on importance of inspection and control measures, as well as data collection. Croatia has already established the key and necessary mechanisms and structures, and in the area of inspection and control and data collection, it has already benefited from the positive assessment by the EC on co-financing of the Croatian Multi-Annual programme for Collection of Fisheries Data (2013). Given the importance of these measures in support and implementation of the

CFP is necessary to provide adequate framework which shall guarantee continuity and possibility of funding of relevant activities.

There is also potential for further development of the organisation of the sector (i.e. association in aquaculture and fisheries and producer organizations), which would allow them to act together at all levels, both in production level and on the market, as well as linking the aquaculture and the fisheries with processing industry. Sales of fisheries products through forms of association (cooperatives and producers organisations) and increase in their prices due to their strengthening market position lead to the overall sustainability of fisheries.

The Integrated Maritime Policy within which the integration of different activities may contribute to the overall blue growth. While planning further development of marine aquaculture, Croatia has defined specific criteria for aquaculture zones in order to avoid possible conflicts within sensitive coastal area. Several coastal counties have developed these zones based on the integrated coastal management principles (ICZM) and the intention is to apply this tool in all coastal physical plans. Croatia recognizes the importance of protecting the marine environment, particularly its biological diversity and marine protected areas, such as areas covered by the 2000 program and other elements of the implementation of the Integrated Maritime Policy.

1.1.4 Specific territorial challenges

Croatia is divided in two NUTS 2 regions (Continental Croatia and Adriatic Croatia). There are 21 regional self-government units (i.e. counties) at the NUTS 3 level, 14 in Continental Croatia and 7 in Adriatic Croatia (Figure 1). In addition, at the local level there are 556 local self-government units (i.e. municipalities and towns). The basic socio-economic indicators show that differences in development of the two NUTS 2 regions are negligible (e.g. GDP per inhabitant, in purchasing power standard (PPS) in 2010 compared to EU-27 average amounted to 58 in Adriatic and 59 in Continental Croatia) [129]. However, differences at lower levels are significant and require special attention and policy measures. Dispersion of regional GDP at NUTS level 3 in Croatia is high in comparison to other EU Member States (36.7 in 2010, which was the sixth highest number for that year [130]).

Internal regional disparities have been a persistent characteristic of the Croatian territory for a long time. Differences in the development level of Croatian regions are partially due to differences in the physical and geographical characteristics (in terms of for e.g. transportation and location advantages for development), but also reflect neglect of potential opportunities. The regional differences were intensified during the transition period and the war in the 1990ies, the consequences of which are still very much present on Croatian territory along the Croatian border to Bosnia Herzegovina and Serbia (now outside border of the EU). Delayed construction of transportation links and other infrastructure, along with the consequences of war, all have caused slower growth and backwardness of many Croatian regions especially in the eastern and middle part of the country.

Because of the diversified geography in Croatia there are lots of possibilities to identify different areas with specific development barriers and potentials, which therefore deserve special focus of public policies. Some of these areas have been recognized in the national legislation: **areas of special state concern** (mostly areas affected by the war), **islands, hilly and mountainous areas** and **assisted areas**. The assisted areas in Republic of Croatia are defined at local and regional level based on calculation of development index [131] (i.e. the self-government units on regional and local level with value of development index below 75% compared to the national average (Figure 2). The basic socio-economic indicators at county level are presented given in **Appendix 1**.

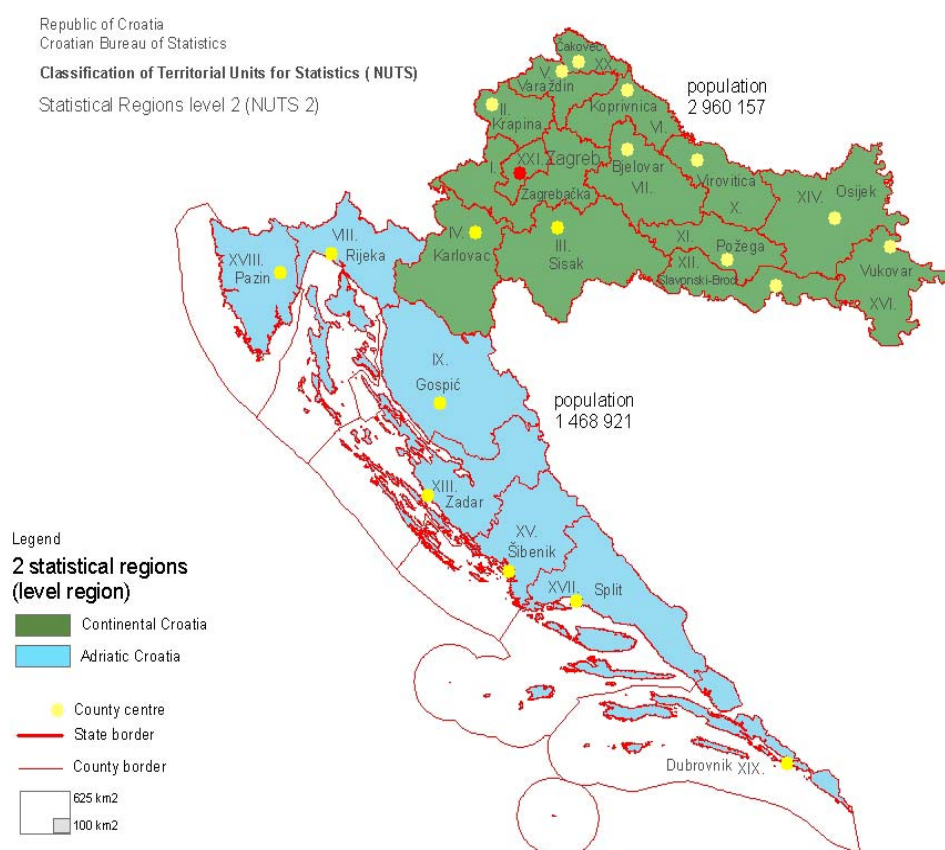


Figure 1. Statistical (NUTS) regions in Croatia as of 2012³³

The correlation between the population distribution and polarization of economic activities is visible through comparing the development level with basic demographical data such as the population density, growth/decrease of population etc (Figure 3). In 2011, 8 Croatian counties recorded population density below 50 inhabitants per km² and can be considered as sparsely populated areas. **Low population density** is characteristic of many local units situated along the border with Bosnia Herzegovina, in the mountains (most evident in Lika and Gorski kotar), Dalmatian hinterland and in Western Slavonia.

The most economically advanced part of Croatia is the capital city Zagreb and its surroundings. The second concentration of the most developed areas is situated in the northern part of the Adriatic Coast. In contrast, counties in the middle and eastern part of Continental Croatia are lagging behind according to most socio-economic indicators (Table 26). The main reasons for this are related to the consequences of war, which has affected both availability of basic infrastructure and services and economic activities. In most cases underdeveloped counties also have a significant share of traditional sectors in the total economy, for example counties in the East often recorded agriculture, forestry and fishing as a significant part in GVA (Virovitica-Podravina 19.0%, Bjelovar-Bilogora 18.1%, Vukovar-Sirmium 15.5% in 2010), while in some other cases in less developed counties, even in the vicinity of Zagreb, the share of manufacturing is still very high (Sisak-Moslavina 37.1%, Koprivnica-Križevci 35.7%).

³³ Source: CBS

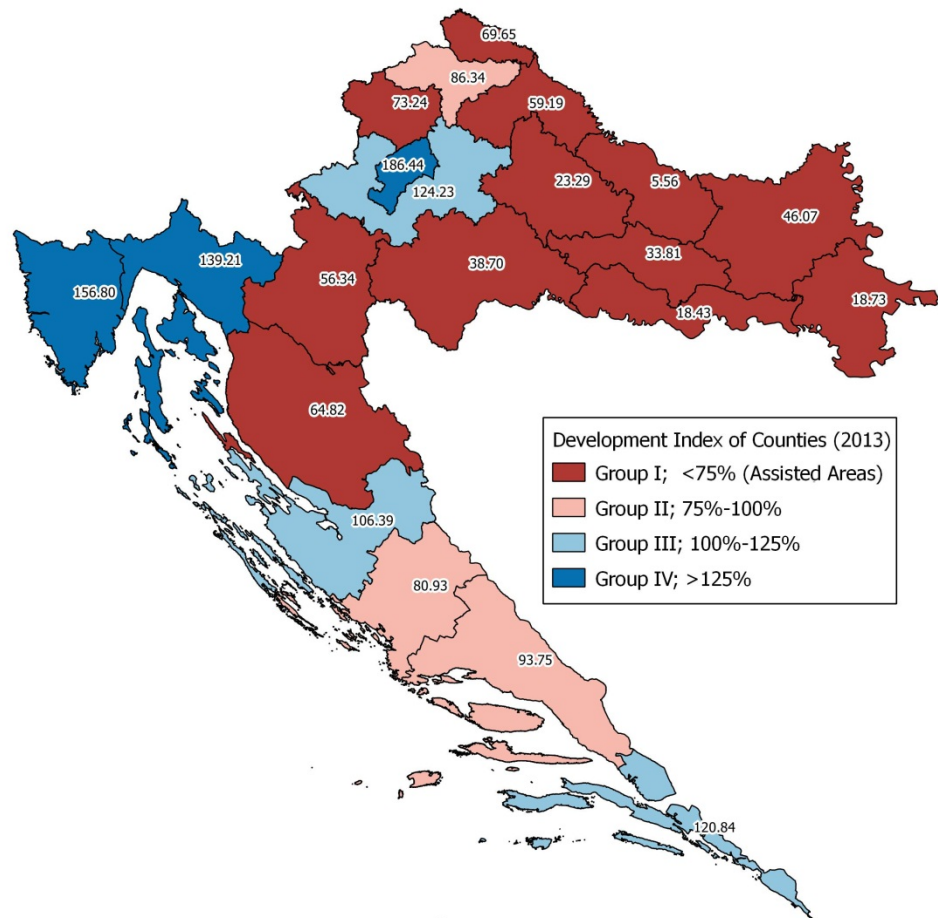


Figure 2. Development index at county level (calculated in 2013)

Comparison of revenues of individual counties also shows significant differences in their capacity for development. Even if Zagreb [132] is excluded from comparison due to its specific role and status, the differences are still huge (Lika-Senj with HRK 14.1 million in 2012, Virovitica-Podravina 28.6 million on one side, on the other Split-Dalmatia with 198.2, County of Zagreb with 176.7 million). In 2012 the revenues of 25 local self-government units (distributed all over the Croatian territory) was under HRK 1 million, which clearly limits their development possibilities [133].

In order to assure recognition of main challenges and potentials, each county is obligated to prepare its County Development Strategy according to the unified methodology and respecting the partnership principle. The existing strategies are valid until the end of 2014, and the new ones will be prepared during 2014 and 2015, for the period from 2015 beyond. At the same time the Strategy for Regional Development is to be prepared at the national level.

The North-West part of Croatia, including Zagreb and its surrounding, has a strong competitive potential due to the availability of human resources and strong economic base, which could be linked with research and innovation potentials in the area. Likewise, this part of the country has a good potential for tourism development, in both, urban and rural areas because of its rich cultural heritage.

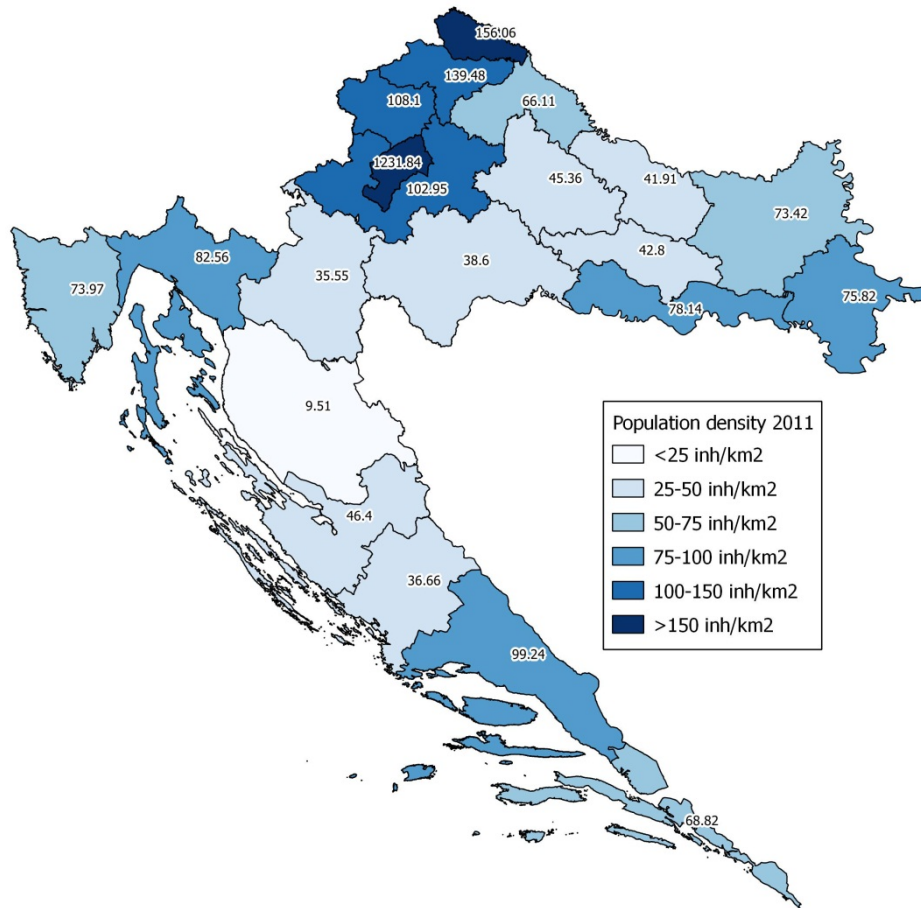


Figure 3. Population density per county in 2011

Eastern part of Continental Croatia still faces war consequences and relies mainly on traditional sectors such as agriculture. Further improvement and creation of still insufficiently developed infrastructure and basic services, as well as stimulation of entrepreneurship and strengthening the capacity of human resources represent main preconditions for further development of this region.

Due to its position on the coastline and rich cultural and natural heritage, the Adriatic Croatia has great potential for maritime activities and tourism development (as described under the heading *Maritime, Fisheries and Related Coastal Development*). Proper valorisation of those resources implies natural heritage protection and sustainable development of resources that would enable economic development.

In some parts of the country such as the islands, but also hilly-mountainous areas and individual areas near the border, accessibility and connectivity requires special attention.

Urban development

Croatia has a historically developed polycentric structure of urban settlements, although in the same time there is a limited number of cities and urban areas having significant economic and social weight in the European context (Figure 4). Croatia has **four urban centres with more than 100,000 inhabitants (Zagreb, Osijek, Rijeka and Split)**, which, together with their surroundings, form urban agglomerations. Jointly, they are inhabited by 1.2 million people [134] (28% of Croatia's total population). Outside of these agglomerations there are 3 more large urban centres with more than 50,000 inhabitants in central settlements (Zadar, Slavonski Brod and Pula) as well as a number of smaller cities situated on the Adriatic coast, and in the wider surroundings of Zagreb and Osijek. In general, the concentration in urban agglomerations is not so advanced as in many other European

countries. Basic socio-economic indicators related to development level of largest urban centres are provided in [Appendix 2](#).

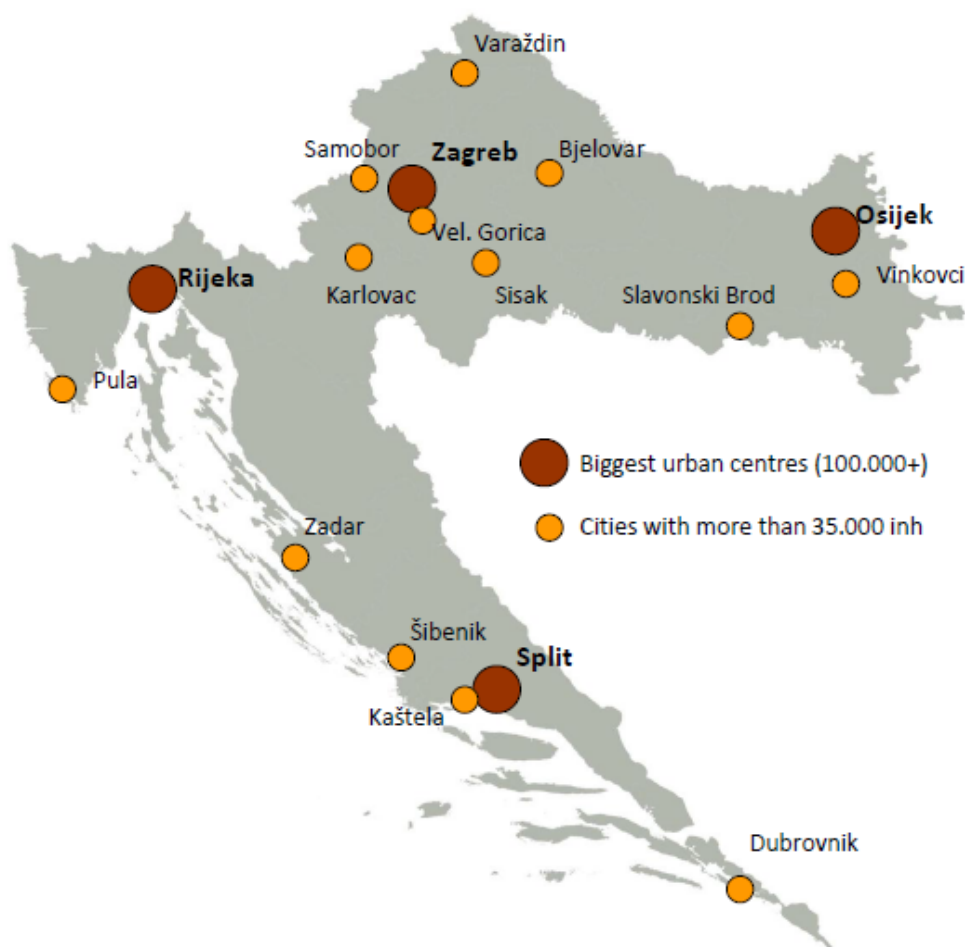


Figure 4. Urban agglomerations and cities with more than 35,000 inhabitants

The largest urban centre by far is Zagreb. The urban area of Zagreb is considered to be the most competitive international growth centre populated by around 790,000 citizens, which is about 1/5 of Croatia's population and where more than 1/3 of total GDP is produced. As a capital city, Zagreb is an administrative, economic, educational, tourism and healthcare centre that attracts population from the whole Croatian territory. The city recorded a 1.4% population growth between 2001 and 2011, but at the same time the city experiences some negative demographical trends such as population ageing, natural decrease etc. High growth of population is also recorded in the surrounding towns (e.g. Samobor, Zaprešić and Dugo Selo).

The number of daily commuters (estimated at 80,000 of workers plus 20,000 other) creates significant pressure to the existing infrastructure and raises the need for further development of a complex and sustainable urban transport system. Urban transport, as well as most basic public services must be designed in a way to satisfy not only the needs of the local population, but also the needs of the whole functional area.

Long lasting development of the urban area, has resulted in degraded and unused spaces (even in the city centre), which could be reutilized. Also, individual city quarters (especially in the eastern part of the city) recorded a significantly higher share of social allowance beneficiaries and necessity for physical regeneration.

A significant part of Croatia's research capacity is located in Zagreb. Additionally, most of Croatian students are enrolled at the University of Zagreb (more than 70,000 students and about 80% of all

postgraduate students in Croatia) the facilities of which are scattered in different parts of the urban area.

The second largest urban centre is the **City of Split**, situated on the Adriatic coast, with a population of 178,000. Demographic and economic indicators indicate that the city is facing serious challenges such as a 5% population decrease in ten years (accompanied by significant growth of population in surrounding local units) and unemployment above the national average.

The port of Split is the most significant passenger port in Croatia providing connection with most important Central Dalmatian islands (total of 4.2 million passengers in 2012, of which 2.8 used ferry to travel to the island). However, the urban transport network, links between urban and suburban area and connections to main corridor contain gaps limiting both, everyday life and tourism development.

After the Second World War the population grew rapidly and the city went through significant changes, which included centrally controlled development of traditional industries, but also caused uncontrolled development of some neighbourhoods. As a consequence of both, some areas along the coast and in the eastern part of the city now require major improvements (e.g. regarding communal infrastructure and road network). Lack of available space for development is of major challenges for Split and rapid expansion of the urban agglomeration across neighbouring towns has taken place in recent years. Also, air quality in the city (based on the measuring NO₂ and SO₂) in some periods reached unsatisfactory levels. Split also has a high potential for innovation, technological and business development, which relies on several research institutes, the university and private companies located in the city.

The **City of Rijeka** is the third largest urban area. With a population of 129,000 it represents a strong economic centre in the northern part of the Adriatic coast. Historical development, as well as the existing development potential of the city is closely related to the port of Rijeka, the most important port in Croatia. Being an important port strongly influenced on development of industries, which caused environmental damages (e.g. 1 million of m³ of ballast water discharges in the port of Rijeka every year) [135]. Decline in industrial development led to dereliction of certain areas, however, their regeneration has already started and is to be continued. Even though Rijeka faced serious decline of population between Censuses (also accompanied by significant growth of population in surrounding local units), its economic position is much better compared to Split.

A strong potential for development is shown also through the high development index of local units around the city, County of Primorje-Gorski Kotar as such, as well as neighbouring County of Istria. Technological potential and innovations are recognized by the City authority as a great opportunity so future actions will, among other, focus on (re)construction of facilities for the university (with more than 16,000 students) [136] and business areas in the suburbs. Due to the fact that the area of the city is surrounded by mountainous area on the North and sea on the South, the spatial expansion of the city is rather limited (as a consequence the City of Rijeka has the highest population density in Croatia with 2,968 persons per km²). These constraints have had a strong influence on development of the transport network within the city demanding for more complex traffic solutions [137].

The fourth biggest Croatian urban centre, the **City of Osijek**, with 108,000 inhabitants (5.7% less than in 2001), has more limited development prospects mostly due to a less favourable location in the East of the country, which is much poorer, affected by the war and bordering non-EU countries. Population density in the city is lower than in other big cities, unemployment is high, and education level lower in comparison to other cities and the surrounding is mostly relying on agriculture. Although the limitation of space is not as severe as in urban centres on the Adriatic coast, Osijek also attempt to reuse abandoned military and industrial sites. During the last decade, the city authorities have been involved in a significant number of EU funded projects with the aim of improving cross-border cooperation and economic development. Further investments in business and employment growth are recognised as a priority of the City. University situated in the City also has need for enlarging existing capacities, especially related to dormitories.

The next largest urban centre, City of **Zadar** (75,000 inhabitants) faces very similar development challenges as all above mentioned urban areas. The city is very active in solving urban transport challenges including development of intelligent solutions and improvement connectivity of the islands forming part of its' administrative territory. Similar as many other urban centres, especially those on the Adriatic coast (e.g. Split and Pula), Zadar has been developed through many centuries which can be seen through concentration of cultural heritage.

Similar to Zagreb and Rijeka, **Pula** (57,000) is one of the most developed cities in Croatia. Pula is also situated in the developed surrounding, with long term focus on tourism, which strongly raises general development potential of the city. Besides tourism, the city is oriented to some extent also to manufacturing (including shipbuilding).

Unlike that, **Slavonski Brod** (59,000) is situated in one of the less developed counties and is lagging compared to national average in many basic indicators (e.g. lower income per capita, high unemployment). Lying on the banks of river Sava near the border with Bosnia Herzegovina, the city experienced serious damages during the war. As in the case of Osijek, Slavonski Brod is a centre of agricultural surrounding and therefore further development can be based on promoting businesses and services needed by the proximate rural areas. Development prospect are also related to strategic positioning of the related road, railway and inland waterway transport networks. In addition to above described urban centres, there are a number of smaller towns with different development prospects.

As the engines of growth in their regions the largest Croatian cities, but also other cities and towns, have significant influences over a wider area and functional labour market. The importance of the cities and towns is especially high when it comes to ensuring access to services and adequate transport linkages to the surrounding suburban and rural areas. In the same time largest cities are locations with high concentration of social challenges (measured in absolute numbers). Although the unemployment rate is not always as high as in some other parts of country, total number of unemployed persons in 7 largest urban centres exceeded 90,000 in 2012, from which more than 40,000 was recorded in City of Zagreb. Similar to this, number of persons older than 75 years [138] according to the Census 2011 in these urban centres reached almost 110,000 persons, 60,000 of which in Croatian Capital. The same logic applies to total number of young people not in employment, education or training, total number of users of social benefits etc.

Rural development

Rural settlements or rural areas are currently not explicitly defined by any law or administrative definition in Croatia. Multiple approaches to data collection methodology and differentiation of areas to urban or rural are used. Although Croatia has a long tradition of formal differentiation of types of settlements in censuses (in the population census of 1961 all the settlements were, for the first time, differentiated in urban, rural and mixed on the basis of expert-based criteria: the size of the settlement expressed by number of residents and share of non-agricultural population [139]), there is a need for a complete and overall definition of rural areas of Croatia. For the need of the preparation of Rural Development Programme of the Republic of Croatia for the Period 2014-2020 (RDP) several methodologies were elaborated [140].

Today, Croatia is a country of highly branched network of settlements with a large proportion of small settlements (96.7% the settlement has up to 2,000 inhabitants and in them lives 38.8% of the total population).

Many of the EU's rural areas face common challenges, as their capacity to create high-quality, sustainable jobs has fallen behind that of urban areas. Generally, incomes are lower in rural regions than in towns or cities and there are fewer job opportunities and those jobs that are available tend to be in a narrower range of economic activities. These differences between regions have, in some cases, resulted in land abandonment and considerable outward flows of rural populations, as well as higher vulnerability to poverty that is primarily associated with rural areas where the poverty rate levels are significantly higher than in urban areas.

The rural and intermediate areas of Croatia include villages, intermediate settlements and small and medium-sized towns - areas of a complex social and economic structure and mosaic landscape with many other types of activities and uses in addition to the main agricultural production and forestry. Whilst the share of agriculture, forestry and fisheries in rural economies has declined, the importance of diversification in rural economies has grown.

The process of **migration from rural to urban areas** in Croatia is durable and strengthens the urbanization thus generating even bigger gap between urban and rural areas (mostly in favour of regions containing urban centres). A consequence of migration from rural areas is deterioration of the living conditions for young families and the growing trend of relocation to urban centres or rural/tourist regions (which hold more promise for achieving a higher standard of living due to the availability of employment, public utilities, and general education).

A larger share of rural population older than 64 years of age, 17.56% (2nd age structure), in comparison to the youth population under 15 years of age, and the employment rate of only 49.75% are indicators of **depopulation of rural areas and land abandonment**.

The education level in rural areas is, on average, much lower than in urban areas. In rural areas, the share of persons aged 15 and over who have completed only elementary school education is twice as high than in urban areas, which helps illustrate regional differences. In the majority of counties, the percentage of those who live in rural areas and have completed primary school only (older than 15 years of age) varies between 20-35 %.

Rural areas are generally underserved when it comes to infrastructure, skills of inhabitants, level of entrepreneurship and access to public services as a consequence of the underdeveloped local transport links, which are unevenly distributed and concentrated near large urban centres. Investments in basic services should be used proactively to address poverty and promote economic and social development in rural areas in line with the specific needs of the areas concerned. A particular focus is needed on general economic and social development in order to address the many-sided challenges facing these areas.

Access to high quality community-based social support and healthcare is limited especially in rural areas, on islands, and in small towns, due to the structural lack of healthcare workers and other barriers to access such as expense, distance or waiting lists. There are significant regional differences in access between urban and rural areas.

The importance of road transport in Croatia stems from the spatial expansion of the network and it being the most appropriate method of connecting users. Economic development is also lagging due to the underdeveloped local road infrastructure, which is unevenly distributed and concentrated along large urban centres. The indispensable improvements of regional and especially local transport will ensure accessibility and connectivity of remote rural settlements and enable them to utilise their economic potential and improve their overall quality of life.

Islands

In the Croatian part of the Adriatic there are 78 islands, 524 small islands and 642 islets, cliffs and reefs, or a total amount of 1,244 out of which only 59 are inhabited. Croatian islands encompass all islands in the East and Middle Adriatic and form second largest archipelago in Mediterranean. According to last Census a total of 124,955 [141] inhabitants live on the islands with population density of 37.9 inhabitants per km². Islands Krk, Pag, Vir, Murter, Čiovo (5 islands) are the only ones connected to the mainland by bridges. Even though the total number of inhabitants on islands increased between the last two Censuses, depopulation is evident when it comes to small and remote islands. Increase in total number of population can be recorded for almost half of Croatian islands, however only two of them (Vir and Čiovo, both connected by bridges) also have positive natural growth. Long-term emigration from the islands resulted in low bio-reproductive potential. Decrease of birth rate and high mortality rate have been, in some cases, compensated by immigration during last decade, but immigrants are in most cases elderly and economically non-

active. According to the last Census, population of islands connected to mainland by bridges was 42,245 (which is 10.3% increase compared to 2001), while the total population of all other islands amounted 82,710 (1.7% decrease compared to 2001).

Although islands can be classified in two groups according to their development level, all inhabited islands face similar challenges related to connectivity and availability of services and infrastructure. Limited accessibility (physical, but also virtual) raises the expenses for inhabitants and business and makes the islands less attractive for living from financial, but also other (e.g. social), aspects. Therefore, the issue of island connectivity (with mainland and among islands) is one of the basic island development priorities to be supported in the following period through set of specific measures. Former investments in this field have already shown some valuable results, however continuation of efforts is needed. Remote islands are very much affected by isolation – e.g. time travel to Island of Lastovo (the most distant among the islands with medium population density and negative demographical trends) is estimated to 5 hours.

Development potential of islands is also related to broadband network coverage, which can improve quality of life on islands. Accessibility of services can be improved through set of technological solutions and designing new models of services (e.g. related to health, education etc.) Good examples of reducing the distances in providing services can be found in e.g. establishment of distance learning, which has so far been introduced on 7 islands [142].

Most of islands are less affected by ecological damages related to industrial development that can make them attractive for inhabitants if the access to basic services is available. There is also strong development potential in the field of energy, more precisely related to renewable energy sources (solar energy³⁴, energy of wind, water etc.), which so far hasn't been recognized to sufficient level as an investment opportunity.

1.1.5 Development goals in the national context

Based on commitments defined in the Europe 2020 Strategy (national distance to headline targets, as shown under the heading *Key economic challenges and structural reforms agenda*) and in the National Reform Programme, as well as on the socio-economic analysis that is the basis for this Partnership Agreement, the medium-to-long-term national development goals in Croatia are to:

- **Strengthen the competitiveness of the economy, increase employment and ensure growth based on the use of own knowledge** - contributing most to the employment target, RDI target and education targets
- **Reduce poverty and strengthen social inclusion** - contributing most to the poverty / social inclusion targets and education targets
- **Reduce regional disparities and ensure quality living conditions** - contributing most to climate change / energy targets and accession treaty obligations, but as well to the employment targets, poverty / social inclusion targets, education targets

The complex inter-relationship between the EU goals, national development goals and goals set out further in this document, i.e. main funding priorities for the ESI Funds for the period 2014-2020 are illustrated in Figure 5 under the heading *Main Funding Priorities for the ESI Funds*.

1.1.6 Maximizing the opportunities of EU membership

After its accession, Croatia shares not only the multiple benefits of EU membership, but also all of the responsibilities that come with it. For the first time, Croatia takes an equal role in the decision-making with 27 Member States counterparts.

Critical challenges of taking part in the European processes and decision-making for Croatia are long-term strategic planning, policy and reforms implementation and particularly, evidence-based evaluation of outcomes. In this sense, the Government can and must further strengthen these processes in the country, and transform and build competence in its sluggish public administration and institutions.

The main focus of the Government is clearly to boost investments and economic competitiveness and with it create employment opportunities, foremost in the real sector of the economy. Important goals are related also to fighting poverty, reducing regional disparities and ensuring its citizens enjoy sustainable improvements in their quality of life. All very difficult tasks, given the currently unfavourable external environment.

The EU membership will bring additional benefits, besides inflow of ESI Funds, among which reinforcement of research cooperation, ease of mobility and facilitation of exchange opportunities for students are prominent. For industry and entrepreneurs EU membership means new business opportunities (but also fiercer competition on the domestic market), which are vital since Croatia is working to encourage foreign investment and improve its business climate.

Furthermore, the ESI Funds can assist Croatia in critical sectors such as the environment, transport and energy, and support job creation through SME development and innovation. To fully capitalise on these opportunities, Croatia will require swift implementation of its reform agenda (see also under the heading *Key economic challenges and structural reform agenda*), as well as increase its absorption capacity for the ESI Funds.

1.2 [A summary of the ex-ante evaluations of the programmes or key findings of the ex-ante evaluations of the Partnership Agreement where undertaken by the Member State at its own initiative](#)

The aim of the ex-ante evaluation is to prospectively assess the four main components of programming: i) programme strategy (rationale and consistency); ii) system of monitoring and evaluation indicators; iii) consistency of financial allocations; and iv) contribution to Europe 2020 strategy (relevance, coherence), through an iterative and interactive process intended to facilitate improvements in the quality of the design of programmes based on the evaluation's recommendations.

As such, the timing of the ex-ante evaluation of the 2 Operational Programmes (OPs) Croatia will implement in the period 2014-2020 is set in order to facilitate the results, recommendations, and lessons identified to be steadily channelled into the continuous preparation and elaboration of all foreseen elements per OP. The evaluation findings are to be available to the participating and coordinating (MRDEUF) units in time for both their interim reviews and gradual approvals of the content of the new programmes before their respective finalisation and official submission to the EC.

Currently, the draft OPs cannot be conclusively evaluated since several of their most critical elements are undergoing extensive transformation as a result, primarily, of a renewed policy drive to organize logically and systematically the development priorities of Croatia per sector, but also in reaction to preliminary comments received from the EC, as well as to feedback provided by the ex-ante evaluators to previous OP drafts.

This collaborative effort between the coordinating Ministry and the line Ministries, and assisted by the ex-ante evaluators, includes reviewing and modifying the existing sector diagnostic and relevant choices of strategy per sector, in order to reconstruct various specific objectives and indicators corresponding to an investment priority according to a more transparently outlined theory of change behind each objective. Also, retrofitting the results framework from the reconstructed intervention logic, particularly in sectors burdened by rather broadly stated strategies that tended to relate to particular types of interventions through a technical approach, instead of advancing outcomes

(changed situations) clearly stated in terms of the social and economic benefits expected and thoroughly describing the change process.

The ex-ante evaluation of the OP Competitiveness and Cohesion has pointed out the unevenness of treatment and disproportional presentation of the contextual diagnosis per policy sector, which restricts the process of assessing the validity of the OP's diagnosis of the critical constraints affecting the country's long-term socioeconomic development and the national policies and strategic priorities, as well as making less evident the causal model implicit in the design of specific objectives. Further, a clearer and meaningful articulation of stakeholder aspirations is required along with agreeing on and setting prioritization criteria to facilitate the prioritization of needs and objectives as well the alignment of stakeholders around expected results. The definition of programmatic focus in terms of supported forms of action and anticipated results is commensurate with the nomenclature adopted by both the relevant national and sectoral ex-ante conditionalities (existing or under development) and the **EC Position Paper**, though the detailed scope of the OP's implementation strategy may need to be tailored to the diverse sector circumstances and to equally diverse roles of relevant stakeholders.

Similarly, the ex-ante evaluation of the OP Effective Human Resources has remarked the uneven presentation of the strategy section of the draft OP, but also the lack of a complete logic chain of presentation of the issues. This also does not reflect adequately elements and information however available, such as the contribution of partners and stakeholders in identifying objectives.

The breadth and depth of identified development needs and proposed funding priorities per sector in both OPs justifies the selection of all eleven thematic objectives and is consistent with Croatia's new MS status, enjoying full access for first-time to structural funds.

The ex-ante evaluators have pointed out at the necessity and usefulness, already at this stage, of simulating financial allocation up to the action level, and of estimating, through elaboration of standard average costs, the targets of outputs and therefore outcomes achievable through the financial allocation. Such an exercise, although tentative and modifiable, would be of major help to assess the ability of the proposed strategy to impact the development needs mentioned in the strategy.

Also, the evaluators point out at the importance to set out to design the mechanisms of interaction and coordination between the implementation structures and procedures of the two OPs concerning the thematic objectives addressed in both programmes.

The ex-ante evaluation of the Rural Development Programme (RDP) has been carried out by the ex-ante evaluators by assessing the sectoral analysis, SWOT and programme targets; assessing of the expected impacts and assessing the proposed implementation arrangements, including monitoring, evaluation, and financial management. Qualitatively speaking, the ex-ante evaluation was conducted in three stages: bilateral meetings with employees of the Ministry of Agriculture regarding RDP chapters and measures, and a programming workshop; collecting data and interviewing potential beneficiaries and other participants; periodic delivery of recommendations and reporting (including a presentation of the draft Report). The main recommendations identified by the ex-ante evaluation are the following: the analysis of the current situation has to be enhanced with the core concepts such as competitiveness, farm viability, innovation etc.; the link between analysis of current situation and SWOT has to be more explicit; and the current situation analysis, SWOT and needs assessment lack sufficient documentation and justification for the prioritization of interventions and financial breakdown.

1.3 Selected thematic objectives, and for each of the selected thematic objectives a summary of the main results expected for each of the ESI Funds

1.3.1 Main priorities for the ESI Funds

Taking into account the development needs and challenges as well as presented growth potentials in the previous sections and the framework for the Common Provision Regulation (CPR) guiding investments from the ESI Funds in the 2014-2020 period, as well as national development goals and the Europe 2020 Strategy for smart, sustainable and inclusive growth, the following main funding priorities for the ESI Funds have been identified for Croatia for the period 2014-2020:

1. Innovative and competitive business and research environment

The objective is to develop a business sector that is highly productive and competitive at the European level and a research sector that can act as an engine to economic growth supporting the creation and diffusion of knowledge and technology while supporting the growth of the economy. The key is to boost Croatia's growth potential related to smart growth by encouraging research excellence and strengthening incentives for businesses to invest, innovate, engage in cooperation with research institutions, increase productivity and ultimately diversify the economy, and create and sustain more jobs in the real sector. This result will have positive implications and spill over for all other sectors of the Croatian economy and society. An important priority will be to tackle the insufficient coverage and accessibility of fast and ultra-fast communications infrastructure and e-services of the government.

These goals will need to be complemented by actions in other areas as well, including particularly investing in human capital. Increasing public administration and judiciary efficiency. Removal of administrative burdens and efficient civil justice system are expected to contribute to creating a favourable business environment, which is an important component of business competitiveness. Modernisation and increase in productivity in the agriculture and fisheries are also among the key objectives. Innovation, not only in terms of new products, but also processes, services, technologies and ideas is to play a key part and is in a way a horizontal theme in other funding priorities, particularly two, three, and four.

2. Promoting energy efficiency, renewable energies and protecting natural resources

Overall objectives are to increase energy and resource efficiency while protecting the natural environment by promoting greener and sustainable growth. More specifically Croatia intends to use ESI Funds to achieve improvements in energy efficiency and renewable energy performance in building, transport and industry sectors, improve resilience and adaptation of living and economic conditions to climate change effects as well as to specific disasters, ensure efficient water and waste management system compliant with EU standards, prevent biodiversity loss and ensure protection and preservation of its natural resources, exploit the development potential of culture and improve urban environment. These goals can be achieved through adoption of clean technologies, expansion of renewable energy sector, supporting investments in green infrastructure, improving urban environment, promoting clean transport as well as promoting sustainable agriculture, fisheries and forest management. Such policy framework is also expected to provide boost to economic performance and significant opportunities for creation of sustainable "green" jobs throughout the country. This Funding priority is strongly connected to the first and third one.

3. Sustainable and modern transport and network infrastructure

The goal is to develop a balanced transport network. This shall be achieved by investments to enhance multimodality and interoperability along the two TEN-T corridors, removing existing bottlenecks and completing missing transport links to improve regional and local accessibility, by mixing different modes of transport to offer greater efficiency, less congestion, lower costs and cleaner air, improvement of rail lines, speed and services, and improvement of traffic safety. The achievement of objectives under this funding priority is strongly connected to achieving the goals of the first and fifth funding priority.

4. Enhancing labour market participation and quality of the education system

The objectives are to increase labour market participation and employability especially of vulnerable groups including youth. A significant contribution to these objectives is expected from the public labour market institutions, which are to be further improved, also in order to deliver effective ALMP measures and effectively deal with youth unemployment. As a strong impulse that will contribute to youth employment, Croatia is planning to use the Youth Employment Initiative resources for implementation of the Youth Guarantee. Education and lifelong learning have a central role in promoting economic growth (smart, sustainable and inclusive). Relevant and accessible quality education at tertiary and pre-tertiary, LLP and adult learning can help reduce the share of unemployment, promote social inclusion and support productivity and innovation essential for economic development. It is therefore of great importance to address the current challenges in education, improve the quality of education following EU accepted guidelines on the need to put greater emphasis on practical skills training in vocational education, its relevance and provide equitable access to education. Connection and contribution to all other funding priorities is strong.

5. Active inclusion and reduction of poverty

The objective is to lower the incidence of poverty and inequality through a multi-dimensional approach that combines social measures, education, healthcare and active labour market policy measures, especially targeted to vulnerable groups and selected degraded territories. Improvement across health services and health outcomes is also expected through a shift from institutional to community-based care, which is based on the principle of subsidiarity (i.e. a health problem should be solved at the lowest level of the healthcare system and as locally as possible). Strengthening social entrepreneurship and rebuilding local capacities of community-based services and businesses is foreseen. Regeneration of small towns and communities, as well as diversification of economic activities in rural areas that are particularly affected by poverty is expected. A stronger economy is required to ultimately lift people out of poverty therefore connection to the first and fourth priority is strong.

6. Supporting the quality, effectiveness and efficiency of public administration and judiciary

The objective is to ensure good governance and deliver quality public services to citizens and businesses. This shall be achieved through improving the level of efficiency, effectiveness and transparency of the public administration and judiciary, as well as support to the implementation of the reform agenda. It is also of great importance to strengthen partnerships between the Government and the business organisations and institutions, NGOs, legal persons with public authorities and civil society organizations, which will help to make public policy processes more transparent and accountable. The achievement of objectives under this funding priority will contribute significantly to achieving all other goals of funding priorities.

Together these funding priorities and actions taken under them shall contribute to the three main national development goals and areas where major changes are expected in the 2014-2020 period in terms of:

- Economic growth (i.e. GDP),
- Employment growth (i.e. level of employment), and
- Preserving natural resources (i.e. ecological footprint)

The ESI Funds will be one of the most important instruments to tackle the main development challenges for Croatia and implement the Europe 2020 Strategy. For rural development, agriculture and fisheries, defined main funding priorities also contribute to the Common Agricultural Policy and Common Fisheries Policy.

Figure 5 illustrates the inter-relationships between the between the EU goals, national development goals and main funding priorities for the ESI Funds for the period 2014-2020. Table 20 provides an overview of the funding priorities, thematic objectives and ESI Funds contributing to achieving the objectives under the main funding priorities.

Table 20: Contribution of Thematic objectives and ESI Funds to main funding priorities

Main funding priority	Thematic objective(s)	ESI Fund(s)
Innovative and competitive business and research environment	<p>1. <i>Strengthening research, technological development and innovation</i></p> <p>2. <i>Enhancing access to, and use and quality of, information and communication technologies</i></p> <p>3. <i>Enhancing the competitiveness of small- and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF)</i></p>	ERDF, EAFRD, EMFF
Promoting energy efficiency, renewable energy and protecting natural resources	<p>4. <i>Supporting the shift towards low carbon economy in all sectors</i></p> <p>5. <i>Promoting climate change adaptation and risk prevention</i></p> <p>6. <i>Protecting the environment and promoting the sustainable use of resources</i></p>	ERDF, CF, EAFRD, EMFF
Sustainable and modern transport and network infrastructure	<p>7. <i>Promoting sustainable transport and removing bottlenecks in key network infrastructures</i></p>	ERDF, CF
Enhancing labour market participation and quality of the education system	<p>8. <i>Promoting employment and supporting labour mobility</i></p> <p>10. <i>Investing in education, skills and lifelong learning</i></p>	ERDF, ESF, EAFRD, EMFF
Active inclusion and reduction of poverty	<p>9. <i>Promoting social inclusion and combating poverty</i></p>	ERDF, ESF, EAFRD
Supporting the quality, effectiveness and efficiency of public administration and judiciary	<p>11. <i>Enhancing institutional capacity and ensuring an efficient public administration</i></p>	ERDF, ESF

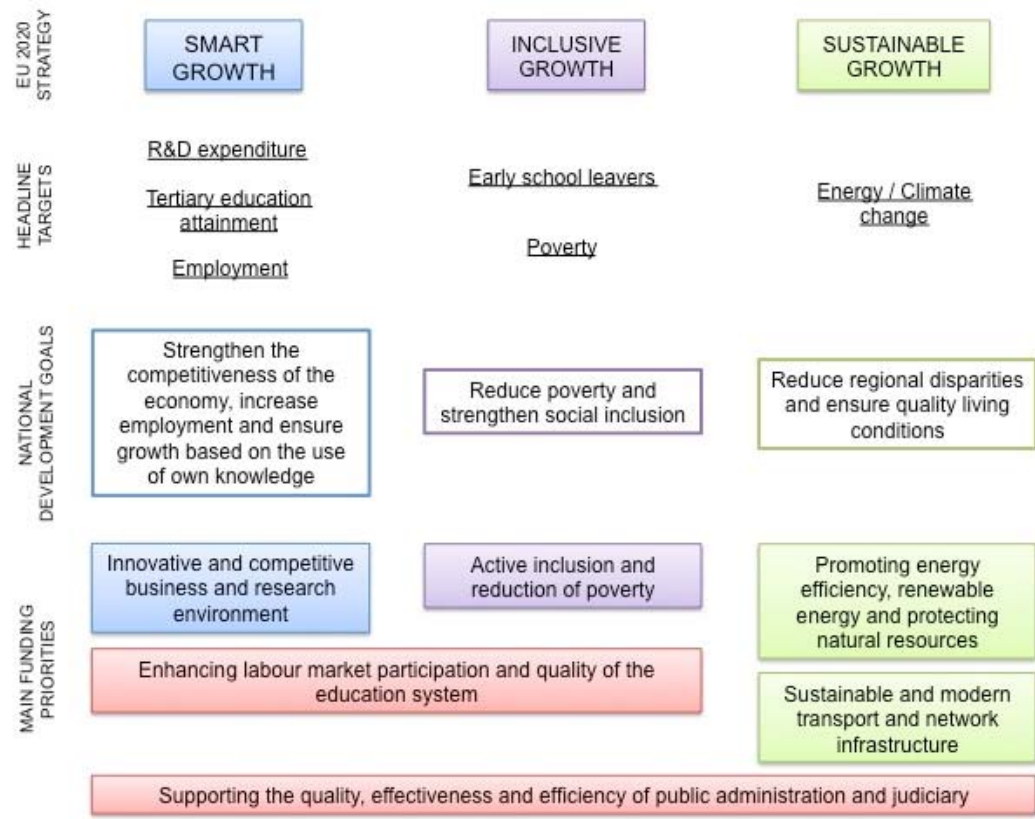


Figure 5. Relationship between the Europe 2020 Strategy goals, national development goals and main funding priorities in the context of ESI Funds 2014-2020

The following ESI Funds and thematic objectives support the achievement of Main funding priority 1 **“Innovative and competitive business and research environment”**:

	Strengthening research, technological development and innovation (TO 1)	Enhancing access to, and use and quality of, information and communication technologies (TO 2)	Enhancing the competitiveness of small- and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF) (TO 3)
ERDF	x	x	x
EAFRD	x		x
EMFF			x

The **main results** that Croatia seeks to achieve for each ESI Fund by thematic objective are:

	Strengthening research, technological development and innovation (TO 1)	Enhancing access to, and use and quality of, information and communication technologies (TO 2)	Enhancing the competitiveness of small- and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF) (TO 3)
ERDF	<p>Increased impact and relevance of scientific research in prospective economic areas linked to Smart Specialisation Strategy for Research and Innovation</p> <p>More efficient commercialisation, i.e. development of research results into new products, technology and/or services to be used by business/industry or other end user with an intention of applying the research results</p> <p>Increased development of new or improved products or processes through innovation contributing to market expansion and better economic performance of businesses</p>	<p>Improved NGN broadband communication infrastructure and access in underserved areas, particularly in smaller cities and towns in rural areas with higher demand prospects (e.g. those that serve as regional and/or local centres of educational, healthcare, entrepreneurial and/or administrative activity in a wider catchment area)</p> <p>Streamlined operation of public administration information systems through e-Government cloud and development of targeted e-services (aiming to increase accessibility and efficiency of e-Government data and online services for citizens and businesses)</p>	<p>Accelerated formation and growth of small companies</p> <p>Increased number of jobs by supporting SMEs to expand production and exports and attract inward investment</p> <p>Contribution to the renewal of the productive structure and broader diversification, particularly of those sectors/SMEs producing tradable goods and services</p>
EAFRD	Increased impact of research, technological development and innovation in more		Improved overall economic performance of farms through farm restructuring and modernisation

	traditional sectors like agriculture and forestry		<p>Generational renewal through entry of adequately skilled young farmers into the agricultural sector</p> <p>Improved competitiveness of primary producers by better integration into the agri-food chain and adding value to agricultural products</p> <p>Improved competitiveness of the food processing industry and increased food quality and safety</p> <p>Improved farm risk prevention and management</p>
EMFF			<p>Modernisation and increase of fisheries production, product diversification and the increase of sanitary and environmental standards</p> <p>Growing number of new technologies and innovative production-related processes and products in fisheries, aquaculture and maritime industries</p>

Thematic objective 1: Strengthening research, technological development and innovation

Reasons for selecting the thematic objective based on development needs and funding priorities:

<i>The need for more and better-targeted investment in RDI:</i>	Gross domestic expenditure on R&D has declined substantially in Croatia after reaching a high of 1.05% of GDP in 2004. In 2012 it reached a low of 0.75% of GDP with only 0.34% of GDP being invested from the business sector. An increase in the level of R&D expenditure, which should come closer to the EU average level, is needed. Additionally investments in R&D are inefficient in Croatia, considering standard performance indicators such as patent statistics (30 times less patent applications per 1 million inhabitants than is the EU average), licensing, research contracts and scientific performance (e.g. average number of citations per scientific paper). Therefore, not only more investments into R&D, but also better-targeted and more efficient investments in terms of relevance and cost/benefit are considered of high priority in Croatia, also in the context of ESI Funds. R&D and innovation policies should be acknowledged as a critical investment for economic growth, jobs, and higher living standards and embedded in the main development policies of the country.
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<p><i>The need for boosting R&D and innovation in the business sector:</i></p>	<p>Croatia's economy is dominated by low and medium-low technology sectors and production. The private sector is technologically weak, resulting mainly from low volume and low investments in R&D of the businesses. Collaboration between the private and public sector R&D actors are few and insufficient (according to the Global Competitiveness Report university-industry collaboration in R&D ranked 76th in Croatia out of 148 countries). Research shows that innovative companies grow faster (both in terms of sales and labour productivity) than non-innovative companies (e.g. business R&D expenditures significantly contribute to performance in terms of raised sales and labour productivity growth, on average by 12% and 6% respectively) [143]. Intensified efforts are therefore needed to stimulate R&D and innovation in the business sector.</p>
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Strategic objectives in relation to the main funding priority and main expected results through ESI Funds:

- Promote research excellence
- Improve science-industry collaboration and technology transfer
- Stimulate business R&D and innovation and the creation and growth of knowledge-based start-ups
- Improve the governance of science, research and innovation policies in order to increase the impact of public expenditure in R&D

How the ESI Funds will contribute to tackling the identified challenges and the EU value added:

Research and innovation are at the heart of EU's strategy for growth and jobs, the Europe 2020 Strategy. More than 30 action points that represent a joint agenda for increasing effectiveness and efficiency of Europe's research and innovation sector are in place. Public support for research and innovation is critical, particularly in the context of stagnant economies and potential economic downturns. In Croatia, the ESI Funds shall contribute to national strategic goals for R&D and innovation in mainly three areas: to substantively increase amounts of public support to especially business investments in R&D (for e.g. in the format of direct support to SMEs' R&D projects and knowledge-based start-ups, i.e. the type of support that BICRO provides, as well as support to RDI projects and R&D capacity building of large enterprises, to enhance cooperation between academia and business and industry and to strengthen research performance and support scientific excellence in public R&D in areas of smart specialisation (for e.g. by promoting modern research infrastructure, supporting teams of researchers to pursue collaborative research and develop capacity in relevant areas, supporting better career prospects for top scientists in Croatia, etc.).

Investing more in research, innovation and entrepreneurship is a crucial part of Europe's response to the economic crisis. OECD data shows that the expansion of public support for RDI is a central priority by the most developed economies to promote economic recovery and job creation. The main challenges of promotion of R&D and innovation are rather similar in all countries.

Croatia's new **Innovation strategy 2014 - 2020** builds policy measures around the main strategic objective to increase societal wellbeing and competitiveness of the economy based on knowledge, creativity and innovation, through four basic means: increasing innovation performance, increasing the share of business sector investments into R&D to two thirds of the total investment in R&D, stimulating basic and applied (industrial) research in the scientific research sector aimed at improving competitiveness of the economy, and strengthening the human resources for research, technological development and innovation. In terms of institutional design, it recommends that larger amounts of R&D funds are managed by organisations specialized in funding R&D projects, particularly for SMEs and knowledge-based start-ups.

Based on this, the National Innovation System (NIS) in Croatia is undergoing structural changes that should help focus also the ESI Funds investments to provide **better outputs** in terms of performance and economic gains. Emphasis through the use of ESI Funds is to be placed on creating productive

linkages within the innovation system and between all actors of the knowledge triangle. In turn, the overall innovation system in Croatia shall move towards a more business centred innovation approach with contributions from the whole knowledge triangle (research, education and innovation/business).

The central strategy according to which Croatia will structure, prioritize and position its ESI Funds investments under this thematic objective is the **Smart Specialisation Strategy for Research and Innovation (RIS3)** that is currently under development. The RIS3 shall set priorities in order to build competitive advantage by developing and matching Croatia's research and innovation strengths to business needs in order to address emerging opportunities and market developments in a coherent manner.

In addition to RIS3 that shall have a central role in shaping the ESI Funds interventions in the 2014 - 2020 EU financial period, there are three national strategies which are also relevant for the countries research and innovation policies: the already mentioned new Innovation Strategy 2014 – 2020, the new Industrial Strategy 2014 – 2020 and the Strategy for Education, Science and Technology up to 2020.

The main strategic goal of the Croatia's new **Industrial Strategy 2014-2020** is repositioning of identified strategic activities in the global value chain by developing activities that create added value. Main expected results by 2020 are: growth of industrial production at an average annual rate of 2.85%, increased employment in industry by 85 thousand (of which at least 30% of highly skilled workers), increase of labour productivity to 68.9%, increase of exports by 30%, and change in the export structure in favour of high value-added exports. The ESI Funds are expected to contribute towards achieving some of these goals, particularly the change in export structure in favour of high value-added exports for which R&D and innovation investments are expected to provide a key boost. As already elaborated, the stimulation of R&D in the business sector and public-private sector RDI collaborations are important strategic objectives in relation to ESI Funds and key actions will be structured around large strategic RDI projects and technology platforms, as well as joint RDI activities between universities / PROs and industry (also involving SMEs); collaborative and contract research relevant to the business sector and clusters of competitiveness in the areas of smart specialisation will also be supported.

The new **Strategy for Education, Science and Technology** describes the following aims related to science and technology: internationally competitive public universities and public research institutes that create new scientific, social, cultural and economic value, an environment that allows and encourages interaction and transfer mechanisms of cooperation between the research community and innovative business, universities, colleges and research institutes engaged in the processes of smart specialization and technological development, national research and innovation infrastructure with public access and European connections, growth of investments in R&D by improving the system of public financing and encouraging business investment and social sector spending on R&D. The ESI Funds are expected to contribute to these goals mainly through providing support to initiatives put in place to address fundamental change in the scientific system (universities, research institutes, funding agencies and industry, where research excellence and contribution to prospective economic areas defined by the RIS3 are the fundamental criteria for gaining ERDF support), supporting teams of researchers to pursue collaborative research and develop capacity in relevant areas through funding schemes such as the development of Centres of Research Excellence and research infrastructures, mainly of European interest, to be used by researchers to conduct research, development and testing (for e.g. contributing to ESFRI and/or complementary with Horizon 2020) and the continuation of schemes funded under IPA and the Structural Funds in the 2007-2013 period.

Contribution to these national goals is expected from the ESI Funds as outlined by the expected main results and strategic objectives through ESI Funds. The ESI Funds will contribute to the achievement of the national RDI headline target, increasing investments in R&D to 1.4% of GDP by 2020 and the share of business R&D in total R&D investments to two thirds. In order to meet the objectives of the Innovation Union, the ESI Funds shall be focused also on Innovation Union priorities such as increasing the innovation potential of infrastructures aligned with the European Strategy Forum for

Research Infrastructures (ESFRI), facilitating effective collaborative research and knowledge transfer (both nationally and trans-nationally) and reforming the national research and innovation systems.

Given Croatia's natural and geographical features as well as industry tradition there is potential for economic growth through development of environmentally friendly green and blue technologies, particularly with applications in marine and maritime sectors, tourism, agriculture, energy and transport sectors, some of which are already Croatia's main economic activities. For instance, development of technological and innovation platforms amongst different actors is a must for making the fisheries sector more competitive and capable to adapt to market needs, while adding value to its products. Complementary actions between ERDF, EMFF and EAFRD in these areas particularly are foreseen. Similarly, as also the EU is stressing the need for sustainable development that leaves less of a footprint on the Earth, Croatia's abundant natural resources in the field of clean water, different types of energy (solar, hydro, wind), wood products and biomass are offering potentials for further economic development and the ESI Funds may be used to realise this potential.

Strengthening research, technological development and innovation are of course not restricted to high tech, but could include more traditional sectors like agriculture and forestry. Fostering innovation, cooperation and the development of the knowledge base in rural areas should be encouraged through promotion of co-operation between rural development actors with an interest in innovation and by strengthening the links of rural development actors with innovation and research sectors.

Co-operation among different actors in the agriculture, forestry and food chain that contribute to achieving the objectives and priorities of the rural development policy, including producer groups, cooperatives and inter-branch organisations, creation of clusters and networks; as well as the establishment and operation of operational groups of the EIP for agricultural productivity and sustainability will be supported under EAFRD interventions. In particular it should cover pilot projects, development of new products, practices, processes and technologies in the agriculture, food and forestry sectors. Co-operation activities supported under **EAFRD** may be combined with other projects supported by Union funds but overcompensation with other national or Union support instruments must be avoided.

Strengthening the links between agriculture, food production and forestry and research and innovation, including for the purpose of improved environmental management and strengthening advisory services for farmers, forest holders and SMEs in rural areas will support performance.

Intermediate outcomes (targets based on main results):

- Contribution to the national R&D headline target to invest more in R&D (% of GDP)
- Improved statistics on patents and paper citations
- Improved innovation performance
- New product sales
- Measured productivity growth
- Benefit/cost and/or rate-of-return estimates on R&D

Overall impact:

- Growth, competitiveness and better jobs

Thematic objective 2: Enhancing access to, and use and quality of, information and communication technologies

Reasons for selecting the thematic objective based on development needs and funding priorities:

<i>The need to respond to universal service provision requirements:</i>	Although Croatia has already achieved relatively good basic broadband coverage (according to broadband statistics from 2012, 94.2% of the population and households in Croatia enjoy basic broadband), one of the reasons that inhibit the increase of broadband connections penetration and
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	<p>wider usage of broadband internet access and services is insufficient and uneven deployment of modern next generation network (high-speed NGN) broadband infrastructure. Total NGA network coverage in Croatia amounted to only 19.1% in 2012, which positioned Croatia far behind EU's average NGA coverage of 53.8% in the same year. Furthermore, the current level of NGA coverage, which is achieved by investments taken by operators in the electronic communications market, is mainly concentrated on few densely populated urban areas of Croatia. A significant number of households, public administration institutions and sites, educational and healthcare institutions, as well as SMEs which are located outside large urban areas, are unable to access the high-speed broadband networks and use advanced IT services and applications, thus hindering uniform regional development in Croatia and exploiting of socio-economic benefits related to the availability of NGA broadband networks.</p>
<p><i>The need to target the white spots (un-served areas) and ensure synergies with other funding priorities in order to achieve maximum benefit:</i></p>	<p>According to the technical and economic analyses provided in "The Study on funding models and support for investment in broadband infrastructure" in 2012, at least 60% of Croatian population will not be covered by NGN infrastructure, due to poor profitability prospects for NGN investments in areas with lower population density (mostly settlements in suburban and rural areas). Many of these settlements are located in assisted areas (according to the classification by the Law on Regional Development). In order to foster extension of NGN coverage to these areas and ensure the achievement of Digital Agenda for Europe (DAE) broadband coverage targets by 2020, public funds shall be used for subsidizing the investments in NGN broadband infrastructure, as to complement the private investments by operators in the electronic communications market. The analyses from the same Study indicate that, in order to reach DAE target of 100% national NGA broadband coverage and close the existing coverage gap (80.1%) in unprofitable areas by 2020, investments of up to EUR 1,286 million euro are needed. It is expected that at least 29.8% of this amount can be covered by private investments from operators, while the remaining maximum share of 70,2% will need to be covered by public investments. In order to gain maximum benefit from the ESI Funds, synergies with other funding priorities (e.g. in education, with relation to the e-Schools national project) will be sought for broadband deployment over white (and grey) spots in the country, where the ESI Funds shall contribute to the extension of NGN broadband coverage for at least 10% of the Croatian population, within the implementation scope of the National Framework Programme for the Development of Broadband Infrastructure in areas lacking sufficient commercial Interest for investments (covering access i.e., last mile, portion of network) and the National Programme for Backhaul Broadband Infrastructure (covering aggregation, i.e. backhaul, middle-mile) portion of the network.</p>
<p><i>The need to boost the provision and take-up of e-Government solutions by citizens and businesses:</i></p>	<p>Croatia is lagging behind in almost all indicators related to the provision and take-up of e-Government services (e.g. general online government availability in Croatia amounts to 57 average across all Life Events compared with the 74 EU-27 average, and online usability is 63 vs. 70 EU-27 average [144]). Even though a steady improvement can be observed though the years, Croatia did not build up its ICT infrastructure and ICT literacy to its potential. Even though this gap can be overcome, for ICT literacy in particular, as ICT gets more user friendly and as new generations complete their education along with knowledge upgrading of others, the full potential of e-Government can be reached in a fairly short time. ICT do their part in informing the citizens on governmental actions and enable them to get more engaged in influencing public policy. IT solutions enable government to service citizens and businesses in a more timely, effective and cost efficient way. As a prerequisite for effective e-Government, as well</p>

	as other e-initiatives, broader issues regarding IT usage such as the availability of broadband Internet access, computer literacy of citizens, secure data exchange and others need to be considered as well.
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Strategic objectives in relation to the main funding priority and main expected results through ESI Funds:

- Ensure better coverage of NGN broadband communications infrastructure for fast and ultra-fast access
- Development of electronic communication infrastructure and equipment for e-Government (in a way that it addresses interoperability and security concerns, as well as to provide incentives to avoid fragmentation of investments in central and local administration)
- Development of targeted e-public services for citizens and businesses

How the ESI Funds will contribute to tackling the identified challenges and the EU value added:

The development of broadband access and e-services is of great importance for the economic development of Croatia and crucial for achieving the common European targets set out in the Digital Agenda for Europe (DAE). Latest broadband services (education via the Internet, social and healthcare services, work from home, e-commerce, etc.) require adequate transmission capacity (> 30 Mbit/s), which can be achieved with the help of optical access infrastructure and related wireless technologies of the next generation networks (NGN).

In order to achieve ubiquitous access to e-services for all citizens and enterprises, the fundamental prerequisite is to **ensure nation-wide coverage of NGN broadband communications infrastructure for fast and ultra-fast access**. The main priority of this thematic objective relating to broadband infrastructure is to support deployment of NGN networks in areas where market operators have not invested in necessary infrastructure for NGN broadband access. The corresponding actions include state aid measures aimed towards both local and regional communities as well as operators in the electronic market, in order to facilitate financial viability of necessary upgrades of existing infrastructure and/or build-out of new infrastructure in the areas concerned. The actions will be targeted towards the **access part of the network (last-mile)**, as well as **aggregation (backhaul) networks** that connect access networks within communities with the national backbone network. Considering the competitive nature of the electronic communications market, **all necessary actions will follow state aid rules**, promoting openness of network for all communications providers and achieving maximum benefits for end users. Based on the investment projections, it is expected that ESI Funds will contribute to the extension of NGN broadband coverage for at least 10% of the Croatian population (households) living in underserved areas. Priority for investment shall be given to territories where multiplicative effects can be achieved combined with interventions under other funding priorities and/or related to higher demand prospects in those areas (e.g. smaller cities and towns that serve as regional and/or local centres of educational, healthcare, entrepreneurial and/or administrative activity for a wider catchment area).

This is also in line with the National Reform Programme 2014 which foresees development of broadband access infrastructure to ensure efficient competition, accessibility of broadband services, promotion of the demand for broadband services and the use of broadband access for citizens and economic entities, as well as the **Strategy for Broadband Development in the Republic of Croatia for 2012 - 2015**, and the **new Strategy for 2016 – 2020**, whose main objectives are to support development of nation-wide infrastructure for high-speed broadband Internet access (at least 30 Mbit/s) and services requiring high access speed, thus allowing the development and availability of digital society to all.

Regulation measures are in place for ensuring effective competition as well as a broad availability of broadband access and for encouraging demand for broadband services and broadband access by citizens and business entities. A national broadband atlas is in operation to monitor broadband coverage in Croatia. State aid clearance for the two national state aid schemes (**National Framework Programme for Access Broadband Networks** and the **National Programme for Backhaul**

Broadband Infrastructure for aggregation networks) is sought in parallel to the 2014 – 2020 programming process, as both are aligned with corresponding state aid principles for broadband networks in the EU and Croatia, which particularly relates to Guidelines for the application of State aid rules in relation to the rapid deployment of broadband networks (OJ C 25/2013).

The **coverage of the Croatian territory with modern NGN communications infrastructure** should have positive social and economic effects, particularly relating to job creation and GDP growth. These positive effects would come directly from the investments in broadband infrastructure. Broadly, further positive effects are expected as all citizens will have equal conditions to access internet and corresponding e-services, which will contribute to a decrease of digital divide between more developed urban (suburban) areas and rural areas. Nationwide access to NGN infrastructure for all enterprises will also increase competitiveness and productivity in enterprises.

Within the Digital Agenda for Europe, the EU Member States are also expected to promote deployment and usage of modern accessible online services (e.g. e-government, e-health, e-education, etc). Inclusive digital services shall ensure the benefits of digital society being available to all. In this context Croatia plans to support development of electronic communication infrastructure and equipment for e-Government, in a way that it addresses interoperability and security concerns, as well as to provide incentives to avoid fragmentation of investments in central and local administration. Support for putting in place the necessary strategic and technical capacities for the coordination of future services and development of a project pipeline, as well as the development of e-Government services is foreseen, in line with the **National Digitalisation Strategy** (under development) which will provide the framework for defining the relevant and targeted applications.

As the level of provision and use of e-public services is low, further development within this area is to be encouraged in connection with the thematic objectives 10 (e-schools) and 11 (efficiency of public administration and judiciary).

Intermediate outcomes (targets based on main results):

- Upgrading the existing broadband speed to at least 30Mbps (improving fast broadband coverage)
- Increased number of backhaul NGN connection points in target areas
- Increased number of households taking up broadband subscriptions
- Increased online availability and online usability of e-Government services

Overall impact:

- Job creation and GDP growth

Thematic objective 3: Enhancing the competitiveness of small- and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF)

Reasons for selecting the thematic objective based on development needs and funding priorities:

<p><i>The need to improve SMEs' competitiveness and create a favourable operating environment for entrepreneurs:</i></p>	<p>SMEs, including trades and crafts, are the backbone of the Croatian economy. They need to be stimulated to grow and help diversify economic activity. They are flexible and can adept quickly to changing market demand and supply situations, they can drive innovation and they make a significant contribution to exports and trade. In Croatia SMEs are facing many problems, from an unfavourable business environment, lack of appropriate financial resources throughout the growth cycle to inadequate and low value added business support services. Access to new technologies, skilled labour, and logistics, adequate and professional SME support institutions at all levels and infrastructure are all-important in creating a competitive advantage for businesses. Croatia intends to invest the ESI Funds to improve competitiveness and productivity of SMEs and particularly their performance in international (as well as domestic)</p>
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	markets. Improving efficiency-driven business growth (on the basis of stimulating efficient production processes, quality product improvements, well-organised logistics services etc.) and innovation-driven growth (on the basis of stimulating new and/or improved products and services) are seen as equally important goals.
<i>The need to ensure adequate access to finance for SMEs:</i>	Access to finance can be critical to business growth and success, particularly for start-up enterprises. It can increase the speed at which a company grows, funds additional product development, or provide enough capital to run the business until the break-even point is reached. However, in Croatia SMEs in general and start-ups in particular face a challenging environment for financing. Although it can be assumed that most SMEs in Croatia would prefer debt to equity financing, often bank lending products are out of reach because of the few tangible assets that the companies' possess and which banks typically require as collateral. With a fresh SME Financing Gap Analysis underway, SME Financing Gap Analysis for Croatia from March 2011 by EIF still provides valid arguments, particularly for the debt financing/guarantees to strengthen the guarantee system in Croatia, setting up a micro finance co-financing facility (a micro finance loan guarantee scheme targeting start-up companies), setting up a credit export facility to boost SMEs exports, risk capital financing to support seed and early stage venture capital funds and allowing for co-investment with the business angels network, and technology transfer financing (pre-seeds instruments supporting the commercialisation of promising technologies).

Strategic objectives in relation to the main funding priority and main expected results through ESI Funds:

- Create a favourable operating environment for entrepreneurs
- Ensure adequate access to finance for SMEs in all stages of their life cycle where there is market failure
- Stimulate growth and internationalisation of SMEs
- Broaden the base of exportable goods by promoting renewal of the productive systems and diversification by SMEs
- Promote reinforcement of expertise

How the ESI Funds will contribute to tackling the identified challenges and the EU value added:

Sustainable growth – promoting a more resource efficient, greener and more competitive economy – is one of the pillars of Europe 2020 Strategy. Sustainable growth means also development of new processes and technologies, reinforcing the competitive advantages of businesses, particularly in manufacturing and within SMEs. The EU target is to improve competitiveness through higher productivity. This is the Croatian goal as well.

In order to have the SME sector make better contribution to GDP and job creation, consistent commitment to the development of the SME sector by implementing access to finance and financial incentives, basic business and technological infrastructure and business services, adequate legal and regulatory framework, and a commitment to building expertise, knowledge and skills is essential.

Croatia's Government and Parliament adopted a new **SME Development Strategy of the Republic of Croatia 2013 – 2020**. The Strategy is in line with all key EU strategic and planning documents such as the EU Small Business Act and the 2020 SME Development Action Plan and has the overall goal of increasing the competitiveness of small businesses in Croatia. The Strategy also develops five main strategic objectives: (1) Improving the economic performance of small businesses in the sectors of manufacturing and services through greater investment in R&D, a higher degree of innovation, export growth and further development of business networks and connections; (2) Improving access to finance by developing various financial options for small business and removing the financial gap for SMEs; (3) Promotion of entrepreneurship in order to support the establishment of new

enterprises, increase the number of active enterprises and strengthen the institutions that support entrepreneurs to thus contribute to more equal and balanced development of the Croatian regions; (4) Improvement of entrepreneurial skills through providing support to greater development of small businesses by strengthening their management, through introduction and retention of a large number of highly qualified employees and supporting lifelong learning in small businesses; and (5) Improved business environment through continuation of progress made by removing the administrative burden and facilitating doing business in Croatia.

The ESI Funds shall contribute to national strategic goals for SME development in mainly three areas: **access to finance** (depending on the outcome of the SME Gap Analysis, to cover loans, loan guarantees, venture capital and business angels), **access to relevant business know-how** (specifically targeting the weak points) and **access to markets** (including improving the position of SMEs in the value chain). Mainly, the development of endogenous potential for SME competitiveness, support services for SMEs competitiveness and support services to enhance SMEs investments in RDI will be supported under this thematic objective. Together, this shall result in accelerated formation and growth of small companies, increased number of jobs mainly through supporting SMEs to expand production and exports and attract inward investment, and contribution to the renewal of the productive structure and broader diversification of SMEs, particularly in those sectors/SMEs producing tradable goods and services, which is particularly important for Croatia as this is the major underlying cause for the lack of export-competitiveness. These results are complementary to the main results sought under the thematic objective *Strengthening research, technological development and innovation*, not only because business growth/competitiveness and R&D and innovation go hand in hand, but also because innovative and technology-based SMEs can often provide a platform for expansion and entering intra-regional and international markets. Also larger businesses often benefit from small businesses within the same region, as many large businesses depend on small businesses for the completion of various business functions through outsourcing.

Action under this thematic objective shall build on the experiences of IPA and Structural Funds 2007-2013 (Regional Competitiveness Operational Programme 2007-2013 has been providing support for enhancing the competitiveness of the Croatian economy through creating better conditions for a more favourable business environment; improving SMEs' efficiency and productivity levels by supporting investments related to innovations in production processes and introducing the results of R&D into production leading to increase in development potential for new and competitive products; improving the quality of institutional support to SME development at national and regional levels leading to better targeting of SMEs' needs and strengthening of knowledge base of enterprises through strengthening their support institutions; enhancing the potential for the development of tourism by diversifying services and expanding the tourist offer, and stimulation of networking and clustering) and the national programme for supporting entrepreneurship development "Entrepreneurial Impulse".

Investments eligible under **EAFRD** support will be carried out in order to improve the economic and environmental performance of agricultural holdings and rural enterprises, and to improve the efficiency of the agricultural products marketing and processing sector. Investment should contribute to the process of consolidation and adjustment of agri-food sector to common EU market competitiveness, and should be particularly addressed on restructuring needs of Croatian agriculture and food-processing industry in order to overcome current difficulties, particularly alignment with community standards regarding food quality and safety. Introduction of advanced technology will improve competitiveness of small- and medium-sized farm holdings in the agricultural sector on the market.

Young farmers compared with the older generation of farmers are more open to new ideas and for introducing innovations into their work and therefore support through EAFRD should be more targeted to young farmers with aiming to additional benefits related to **generation renewal** as one of major goals of agriculture sector.

In order to place their products on market, farmers have to meet certain quantity and quality

standards, which will be facilitated by supporting establishment of producer associations. In addition, introduction of quality labels which could make positive influence on market access and added value of these products. Integration of primary producers reduce number of steps in supply chain what directly influence the economic profit.

The agricultural sector is subject, more often than other sectors, to damage to its productive potential caused by natural disasters, adverse climatic events and catastrophic events. In order to help farm viability and competitiveness in the face of such disasters or events, EAFRD support under RDP should be provided for helping farmers restore agricultural potential, which has been damaged. Furthermore, farmers are very often exposed to increasing economic and environmental risks as a consequence of increased price volatility of global agricultural markets and climate change. In order to mitigate those risks farmers should be encouraged to use available risk management tools.

Under **EMFF**, Croatia plans investments in all segments of the fisheries and aquaculture sector, including processing. In part of fishing, investments are to be achieved reduced impact of fishing on the environment, increase energy efficiency, increase the value and quality of fish or improve the safety and working conditions. In addition, investments in aquaculture and fish processing will result in the creation of strong profitable activities in line with market demands and requirements in the area of environmental protection, while the investments in existing ports, landing sites, shelters and facilities, provide the necessary logistics in carrying out these activities.

Priority areas of intervention under **EMFF** are aimed at the strengthening of R&D, innovation and knowledge transfer in fisheries and aquaculture, including associated processing, which would encourage the development and introduction of new or significantly improved fisheries production, new or improved processes and techniques, new or improved systems management and organization, including improved fishing techniques and gear selectivity, reducing the impact of fishing activities on the environment and achieve sustainable use of marine biological resources.

Intermediate outcomes (targets based on main results):

- Direct jobs created
- Greater levels of business investments by SMEs
- Increased contribution to export earnings by SMEs

Overall impact:

- Employment opportunities and growth (fall in the unemployment rate and increased contribution of SMEs to GDP growth), regional development and poverty alleviation

1.3.3 Main funding priority 2. Promoting energy efficiency, renewable energy and protecting natural resources

The following ESI Funds and thematic objectives support the achievement of Main funding priority 2 “Promoting energy efficiency, renewable energy and protecting natural resources”:

	Supporting the shift towards low carbon economy in all sectors (TO 4)	Promoting climate change adaptation and risk prevention (TO 5)	Protecting the environment and promoting the sustainable use of resources (TO 6)
ERDF	x	x	x
CF			x
EAFRD	x	x	x
EMFF	x		x

The **main results** that Croatia seeks to achieve for each ESI Fund by thematic objective are:

	Supporting the shift towards low carbon economy in all sectors (TO 4)	Promoting climate change adaptation and risk prevention (TO 5)	Protecting the environment and promoting the sustainable use of resources (TO 6)

	4)		(TO 6)
ERDF	<p>Reduced energy consumption in the building sector</p> <p>Increased share of RES in energy consumption in the cooling / heating and transport sectors</p> <p>Modernization of existing and introduction of new urban transport mobility option based on zero emission</p>	<p>Enhanced data collection and assessment of the climate change effects and adaptation measures</p> <p>Improved operational capacities of the relevant disasters risk related institutions on national and local level</p>	<p>Enhanced system of natural and cultural heritage preservation, its adaptation and usage for tourism and/or other economic needs</p> <p>Protection and restoration of biodiversity and the ecosystem services it provides, in order to secure sustainable management of nature</p> <p>Regeneration and reuse of the brownfilled sites within urban areas</p>
CF			<p>Increased separate collection and reuse of waste with a corresponding decrease in landfilling</p> <p>Decreased environmental risks from inadequate waste landfilling</p> <p>Decreased risk of pollution (non-compliance with good status) of ground / surface waters</p> <p>Reduce the water abstraction while ensuring sufficient quantities of water of adequate status for the population and economic purposes</p>
EAFRD	<p>Increased efficiency in energy use in agriculture and food processing</p> <p>Increased supply and use of renewable sources of energy, of by-products, wastes and residues and of other non-food raw material, for the purposes of the bio-economy</p> <p>Reduced GHG and ammonia emissions from agriculture</p>	<p>Improved water management on agricultural land</p> <p>Improved use of fertilisers and pesticides management</p> <p>Improved quality of the soil, decreased soil erosion and preserved organic matter in soil</p> <p>Increased carbon conservation and sequestration in agriculture and forestry</p>	<p>Protected biodiversity from negative impact of unsustainable agriculture or land abandonment, including Natura 2000 areas and areas facing natural or other specific constraints</p> <p>Ensured high nature value farming, and the state of landscapes</p>
EMFF	Increased energy efficiency		Reduced impacts of fishing

	<p>of maritime and fisheries activities and deployment of low-carbon technologies</p> <p>Reduced emission of pollutants and/or greenhouse gases and increased energy efficiency of fishing vessels</p>		<p>on the environment</p> <p>More sustainable use of marine biological resources achieved through the implementation of conservation measures under the Common Fisheries Policy, and fishery related conservation measures under Natura 2000 and Marine Strategy Framework Directive</p> <p>More sustainable use of maritime space achieved through Maritime Spatial Planning and Integrated Coastal Management</p> <p>Collected marine waste, supported marine litter clean up and sea cleaning in ports in order to protect biodiversity</p>
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[Thematic objective 4: Supporting the shift towards low carbon economy in all sectors](#)

Reasons for selecting the thematic objective based on development needs and funding priorities:

<p><i>The need to reduce energy consumption, primarily in the building sector:</i></p>	<p>Although the final energy consumption is decreasing the recent years, the building sector is actually not attached to such trends, sustaining a relatively stable level of energy consumption between 2008-2012. The buildings sector (including residential housing, public and commercial buildings) is the single largest energy consumer, with the 43% share in the final energy consumption in 2011 (almost 50% if the service sector is contributed as well). Out of that figure 2/3 is attached to the residential sector while 1/3 is dedicated to the public and commercial sector; and it is important to note that almost 70% of energy spent in the building sector is attached to cooling/heating purposes. Besides being the biggest energy consumer, the building sector is relatively energy inefficient with average energy consumption per household (in terms of kWh/m²) higher than in neighbouring EU countries.</p>
<p><i>The need to increase RES usage by promoting independent smaller scale generation plants:</i></p>	<p>Although the overall level of RES production is relatively good (more than 15% in the final energy consumption) it must be noted that such share is mainly attributed to the electricity production and generation from the large hydropower plants (LHP). The penetration of the RES in the cooling / heating and transport as well as production from others RES except the LHP is still quite limited. In that sense there is a need to promote larger number of smaller RES generation that will be characterised by production with the aim of consuming energy on the place of generation (thus not just contributing to the reduction of emissions but also providing for security of energy supply) and usage of the RES more suitable to the local conditions (primary biomass and solar) that can contribute to the development of the local economies as well.</p>

Strategic objectives in relation to the main funding priority and main results under ESI Funds:

- Promotion of energy efficiency and energy consumption savings in building and industry sectors
- Reduction of traffic congestion in urban areas coupled with a corresponding decrease in the energy consumption and GHG emissions of the transport sector
- Promoting the use of locally available resources and technologies in order to increase the share of the RES in final energy consumption
- Stimulating local economies and employment in relation to energy renovation and localised generation of energy from RES
- Reduction of GHG emissions and increasing the level of security of energy supply
- Reduction of final energy consumption by 22.76 PJ in 2020 [145]

How the ESI funds will contribute to tackling the identified challenges and needs and the EU value added

Having in mind the described development needs and funding priorities the **ERDF funding under this thematic objective will heavily focus on two sectors – buildings and industry**, that jointly have 2/3 share in the final energy consumption, but also the sectors that are planned to be the ones contributing significantly to the targets set for 2020, both for EE and RES.

The **building sector will be the main priority** for ERDF. More precisely, the primary focus will be on: a) on the **public sector buildings** having in mind the requirement set by the Energy Efficiency Directive which stipulates the need to renovate 3% of the total area of the central government building each year and b) investments in the **heating/cooling**, since they amount to almost half of the total energy consumption, through integration of energy efficiency ("deep retrofiting" concept) measures with the small facilities for production of RES for individual purposes i.e. to cover (part of) energy needs of buildings themselves. Investments in the residential buildings (multi apartments and single houses) will also be targeted, primarily in terms of the heating/cooling sector, with priority on buildings constructed before 1987 due to their extremely low energy characteristics. The use of financial instruments for supporting energy efficiency programmes funded from the ERDF in Croatia shall be considered (e.g. loans complemented by technical assistance packages).

With regards to the **industry sector**, the focus will be on replacement of conventional fuel in the production processes with RES plants and in particular once again for the introduction of individual energy efficiency and RES measures, with the accent on the manufacturing industries and private sector services including tourism.

Transport measures will be directed to the reduction of emissions from transport including providing for more efficient engines and type of vehicles for public transport and pilot projects for electric vehicle charging, and on the other hand, "soft" investments" that will help **improve accessibility and decarbonisation of public transport sector**, including both reduction of energy consumption and pollution, such as optimising driving regimes, optimising city mobility model structure, enhancing walking and cycling infrastructure etc. Urban transport measures will be implemented through the ITI mechanism.

In order to enable fulfilment of the abovementioned energy-related goals, the necessary supporting measures will be supported as well. Those measures will primarily relate to administrative and capacity building on all levels (including awareness raising) in order for the various stakeholders (central & local governmental level, citizens, potential entrepreneurs) be able to adequately prepare and implement EE / RES measure and technical measures (such as introduction of smart metering and pilot investments in smart grids) that will provide for **efficient management of the overall energy system**.

Priorities for ESI funding, i.e. renewable energy use and more efficient energy use with corresponding reduction of GHG emissions are key priorities set out in the **Europe 2020 strategy**. In order to comply with the EU 2020 headline targets the National RES Action Plan for 2013-2020 sets

the goals of RES share in electricity as 35%, transport as 10% and in heating/cooling as 20% (a detailed division of targets per sectors is provided in [Appendix 3](#)) while the National Energy Efficiency Programme sets that the overall energy saving target [146] should be contributed 34% by households, 19% by services, 17% by industries (excluding ETS) and 30% by transport. As for the reduction of GHG headline target of the Europe 2020 Strategy the investments in the EE and RES will allow for reduction of GHGs emissions, since the energy sector is the biggest contributor to the overall GHG emissions level.

Security of supply, competitiveness of the energy sector and sustainability of energy systems are the three main overall objectives of the national **Energy Strategy for the period until 2020**. Within those three main overall objectives the top priority measures are related to the increase of the efficiency in the energy use and increase in the share of the RES in the final energy consumption (setting the targets that are more operationally developed in the above mentioned National RES Action plan and National Energy Efficiency Programme).

The **Croatian Tourism Strategy** sets Eco orientation as one of the main lines of further development of tourism service sector, including promotion of energy efficiency. The **Industry Strategy** sets energy and resource efficiency (especially energy efficiency) as one of the main trends and goals in the industrial production on the global level, but at the same time as one of the top growing sectors providing opportunities for development of relatively sophisticated and technologically advanced business and jobs.

Agriculture and forestry can be significant sources of renewable energy, especially forest biomass and other agriculture and food processing by-products. **Generating energy from biomass** reduces dependence on energy import, greenhouse gas emissions, pollution of ground waters and the effect on climate, soil, air and water is immeasurable. Supporting the construction of facilities for the production of renewable energy will help increase the efficiency in energy use and aid the supply and use of energy from renewable sources.

The goal of enhancing competitiveness of agriculture, food processing and forestry sectors must be accompanied by energy efficiency in production. Improving energy efficiency of production facilities and processes, as well as increase of production and consumption of renewable energy is prerequisite for sustainable economic growth. The special attention should be also given to development and introduction of more energy efficient and innovative solutions, practices, processes and technologies as well as dissemination of information. Improving energy efficiency will also have direct contribution to the reduction of emission of the greenhouse gasses, particularly carbon dioxide.

Taking into account, importance and share of agriculture and food-processing industry in Croatia, efficiency in energy use is important since the reduction of production costs through reduction of energy costs can positively affects the entire economy. Investments in more efficient use of energy from renewable sources and their application in agriculture and food-processing industry will be targeted through **EAFRD**.

The Croatian fisheries sector is also aware of the impact of climate change on the entire area of interest in the fisheries and mitigates the impacts of climate change in order to achieve the highest level of sustainable use of the sea and coastline. With support from EMFF, Croatia is keen to mitigate the effects of climate change and increase energy efficiency in fisheries through investments in equipment on board, energy audits and schemes and studies. Furthermore, a better knowledge of the sea and exchange of information are essential for the sustainable growth of the sector and achieve a healthy and economically exploitable sea.

Intermediate outcomes (targets based on main results):

- Contribution to achieving the national energy and climate change headline targets (reduced GHG emissions, increased energy from RES and increase in EE)
- Decreased energy consumption for cooling and heating in building / Industry

- New RES generation plants developed in accordance with the local natural and technological resources
- Reduced share of energy input costs in the industry / service products
- Decreased GHG emissions and pollution from the transport sector
- New business and jobs created through the implementation of energy efficiency and RES activities
- Decreased share of energy import dependence

Overall impact:

- Energy resource efficiency, sustainable economic growth and better jobs

Thematic objective 5: Promoting climate change adaptation and risk prevention

Reasons for selecting the thematic objective based on development needs and funding priorities:

<p><i>The need to additionally explore and understand effects of climate change, and prepare and implement adaptation measures:</i></p>	<p>Croatia can be considered as highly endangered by the climate change with evidences of changes already being seen. Those changes present significant threat both for the sectors that are important for economy (i.e. account for large share of GDP) such as tourism and agriculture, but also for the ecosystems and infrastructure, primarily in the coastal zones and forests. So far Croatia was mostly dealing with the mitigation of climate change effects and far less with the adaptation to climate change. Therefore it is necessary in the beginning to invest additional efforts and resources, primarily through scientific research and monitoring, to gain more in depth knowledge on the actual effects of climate change on environment and economy and to incorporate and implement adaptation measures in the sectoral development plans as well as to secure capacity building for adequate planning and implementation of adaptation measures and finally to set up and implement comprehensive plan of adaptation measure. All of those activities will be based and in line with the National Adaptation Strategy, due by the end of 2016.</p>
<p><i>The need to reduce risks and damages from the natural disasters:</i></p>	<p>Croatia suffers from high level of damages from the natural disasters, amounting to averagely more than EUR 200 million yearly, with the floods, droughts and fires, being the most significant risks. In terms of risk related primarily to the agriculture – there is a strong need to improve irrigation systems infrastructure because due to the droughts agriculture in Croatia faces huge pressure on the safety of its food chain in terms of mycotoxin contamination and degradation of soil conditions, lowered groundwater levels, etc. Therefore the main needs relate to the improvement of the disaster management system both in terms of infrastructure and necessary human and technical capacities with a view to reduce disaster risks and to improve prevention, preparedness and response to disasters. All of those activities will be based and in line with the Disaster risk assessment that is due by the end of 2015. Disaster risk assessment will provide basis for improvement in the disaster management system by prioritising specific risks and measures that need to be tackled.</p>

Strategic objectives in relation to the main funding priority and main results under ESI Funds:

- Improve the system for planning and implementation of climate change measures
- Determine and implement adequate climate change adaptation measure in most effected economic sectors and territories
- Reduce the damages from the natural disaster
- Improve the system for prevention and management of risks and technical and natural disasters

How the ESI Funds will contribute to tackling the identified challenges and needs and the EU value added:

Significant sensitivity in terms of climate change impacts with corresponding expected increase in the occurrence rate of naturally caused risks implies the need for preparation and implementation of the adaptation measures as well as risk prevention and protection measures. In terms of adaptation as a first step Croatia needs to develop a National Strategy and Action Plan for Adaptation to Climate Change that will determine precise objectives as well as concrete and priority investments in terms of adaptation and prevention of climate change adverse effects. The ESI Funds will be used to tackle all identified needs (data collection, sectoral integration, capacity building etc.) in support and in line with the National Adaptation Strategy, due by the end of 2016.

In terms of disaster risk management, in line with the development of the Disaster risk assessment, the main objective is to **improve the disaster management system** both in terms of infrastructure and necessary human and technical capacities. Disaster risk reduction will enable Croatia to put in use and manage more efficiently its resources but it will also help establish conditions for sustainable long-term.

Establishment of the investment strategy within this thematic objective is highly influenced on the one hand by the fact that the main strategic documents (National Strategy and Action plans for Adaptation to Climate change as well as Disaster Risk assessment and Disaster Risk Reduction strategy) that should identify the priorities and main activities are still to be finalised (in 2016 and 2015 respectively) and on the other hand relatively limited financial resources available under **ERDF** for this Thematic objective. Therefore the investment strategy is actually divided in the two periods as follows: the main priorities for the first part of the programming period will concern capacity building measures in the climate change adaptation and disasters risk sectors. Second one will concern priority (infrastructure) investments as they will be identified and prioritised within the adaptation strategy and disaster risk assessment.

Priorities for ESI funding will contribute to the **Sustainable growth priority of the Europe 2020 Strategy**, which stipulates the creation of climate resilient economy including disaster risk reduction and prevention as a priority within the "Resource efficient Europe" flagship initiative.

The main national strategic documents for the climate change adaptation and disaster risk management still to be developed. However existing national strategic framework, composed out of the relevant sectoral strategies, provides for strategic direction primarily in relation to specific risk. Namely, the document **Natural and Technological Risk Assessment** recognises 11 potential risk as well as need for improvements in the disaster rescue prevention and protection organisation and management as priorities. **The Water Strategy** and **River Basin Management Plan** determine the strategic direction in relation to the protection from the adverse effects of the water (i.e. floods) and abstraction and use of water for the irrigation purposes as sectoral priorities.

Investment in irrigation system and enlargement of irrigable agricultural area in Croatia can significantly mitigate risks connected with increasingly frequent droughts. It will give opportunity to farmers for adaptation on climate change connected with rising temperatures and unfavourable rainfall patterns. In October 2005, the Government adopted a strategy of 'development of irrigation' in Croatia, with the aim of improving the management of natural resources, organization of agricultural infrastructure, and market economy of agricultural products under the title of the National Project of Irrigation and Management of Agricultural Land and Water in the Republic of Croatia – NAPNAV. According to NAPNAV, it is planned to ensure 65,000 ha of irrigable land in Croatia by the end of 2020. Implementation of NAPNAV is slow down by financial crisis impact so goal set by NAPNAV are hardly achievable without support from ESI Funds. However, more than six existing irrigation systems have been totally or partially repaired (3,800 ha) and five new systems were built (1,200 ha). It increased total irrigable land to around 15,000 ha in 2012.

Croatia is rich in natural, unpolluted water resources that must be protected from any possible pollution by means of constant supervision and adapting of agricultural production activities. This

can be achieved by encouraging various agro-technical practices, which reduce possible negative effects of intensive agriculture.

Promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors are complementary with non-productive investment linked to achievement of agri-environment-climate objectives supported under thematic objective 6.

Appropriate application of agro-technical measures in agriculture and forestry will influence the reduction of excessive and unnecessary soil treatment, the result of which will be improved quality of the soil, reduction of erosion and less organic matter lost. Inadequate fertilization and improper manure storage are the main ground water nitrate polluters. Together with quality education of farmers, it is necessary to encourage development of balanced multiannual fertilization plan that corresponds to the real needs of the crop, so rather optimum than the maximum amount of fertilizers is used. In addition to training on the use and disposal of fertilizers, farmers must receive essential information about the responsible use of pesticides and disposal of waste, in order to raise the level of knowledge about agricultural practices and methods that reduce the negative environmental impact of agriculture (organic and integrated farming, introduction of a wide crop rotation, mulching) which ultimately reduce the impact of agriculture on climate change. Sustainable agricultural production includes reduced energy consumption, thus the need to modernize farms by construction and reconstruction of facilities, purchasing machinery and application of technology, especially in livestock sector, which best reduce the emission of greenhouse gases into the atmosphere, as well as nitrate pollution of waters. Investments in modern technologies in the agriculture and forestry sector will influence the quality of water resources. This is particularly important for vulnerable areas declared as areas of special importance for Croatia.

Intermediate outcomes (targets based on main results)

- Integration of climate change adaptation aspect in all sectoral investment plans and targets
- Improved level of information and awareness on the climate change effects and necessary adaptation measures
- Developed the disaster risk warning system
- Improved performance of the disaster risks related authorities and institutions
- Increased irrigable area

Overall impact

- Ensuring climate change and disaster resilient living and economic conditions

Thematic objective 6: Protecting the environment and promoting sustainable use of resources

Reasons for selecting the thematic objective based on development needs and funding priorities:

<i>The need for improvement of the basic communal services:</i>	The vast majority of the waste generated is actually being deposited onto landfills thus on the one hand creating environmental burden and hazard and on the other hand making the whole waste management system resource inefficient and missing the potential for development of complementary economic activities. As for the water sector still a large portion of population is not connected to the sewerage collection and treatment, while the situation is little better, although not satisfactory, as regards water supply. However one common mark of the water system is its inefficiency represented in the high level of water losses and leakages.
<i>The need for better linking the existing heritage and other resources with economic development and employment</i>	Croatia is characterised by richness in terms of heritage (both natural and cultural). Protected areas, particularly national and nature parks, with its diverse ecosystems provides goods and services that have essential contribution to human well-being, quality of life and economic prosperity and as such can provide the core potential for regional development. Over 8000 items are on the list of the protected cultural heritage. Such richness

<i>opportunities:</i>	put ahead two main goals: first one related to the achievement of adequate level of preservation and sustainability of heritage in parallel and secondly to tap the contribution of such potential to the economic performance. The similar need applies for the exploitation of existing physical resources, primarily in urban areas where the future development should be based on the regeneration and reuse of already existing physical infrastructure instead of additional (physical) resource consumption.
<i>The need for improvement of administrative and management capacities of the environmental sector:</i>	Almost all environmental related sectors (waste, water, nature) can be characterised as underdeveloped in terms of institutional and administrative capacities, with limited investment in management development and equipping. Consequently such situation results with inefficiency through the system as such but also with the inefficient management of resources (both natural and handmade).

Strategic objectives in relation to the main funding priority and main results under ESI Funds:

- Promote waste management system in accordance with the waste hierarchy
- Reduce environmental risks from inadequate waste disposal and management
- Achieve and maintain good status of all water bodies
- Ensure efficient managements and use of the water resources
- Enhanced system of natural and cultural heritage preservation and its sustainable usage
- Ensure protection and restoration of biodiversity and ecosystem services it provides thus securing long term sustainable management of nature
- Improved urban environment through renovation and reuse of already used physical and natural resources for (infrastructure) development
- Improve the overall governance and capacities in the environmental sector

How the ESI funds will contribute to tackling the identified challenges and needs and the EU value added:

In the environmental sector the development needs and potentials are to a large extent linked to the fulfilment of the requirements of the relevant EU Directives and as such stems from The Treaty of Croatia's Accession to the European Union. Therefore the main funding priorities are related to increasing availability and efficiency of communal services thereby contributing to the achievement of compliance with the EU aquis within waste and water management sector in line with the provision of the Accession treaty. This implies that significant **Cohesion Fund** resources will be directed to:

- **Waste management** - a) primarily measures concerning prevention of waste being originated and land filled including increasing separate collection and recycling / reuse of waste and b) creating adequate waste processing and land filling infrastructure. These measures should contribute to the fulfilment of obligation as regards reduction of share of biodegradable waste being land filled by end of 2020 and closure of all non-compliant landfills by end of 2018.
- **Water management** - a) increasing the level of connection to the public water supply system with corresponding reduction of losses (up to targeted 15-20%) and b) increasing the level of connection to the sewerage system and level of adequate wastewater treatment. Like stated, these measures are mainly focused on the fulfilment of heavy investments under the water directives that will comply with defined transitional periods. However, implementation of those measures supports also the objective of Water Framework Directive that includes the key element of the River Basin Management Plans (RBMPs) for Danube and Adriatic River Basins with incorporated Programmes of Measures to be implemented at basin level and aimed at achieving a good status of water bodies.

The prioritization of measures in terms of financing will be set up in accordance with the transitional period deadlines for both sectors.

While preparing and implementing priority investments in the waste and water management sectors due care must be given on the one hand to the **institutional strengthening of the two sectors** including necessary re-organisational measure (such as consolidation of the water communal companies as envisaged by the draft Decree on the water service areas), and on the other hand affordability level since the compliance related investments and corresponding application of cost recovery principle will pose significant burden on end users.

The third funding area concerns more efficient management of the **cultural and natural resources**, including enhanced management of protected areas (national and nature parks). In terms of nature protection the activities, in line with the EU 2020 Biodiversity Strategy, will cover measures related to: a) **conservation and restoration** of the biodiversity (i.e. maintenance and enhancement of ecosystems and their services); b) prevention and halting biodiversity loss (including diminishing negative impacts e.g. IAS, landmines, submarine noise) c) ensuring sustainability of natural resources (i.e. incorporating biodiversity conservation measures into sectoral plans and programmes). Within mentioned priorities and having in mind that Croatia has recently proclaimed Natura 2000 network one of the main priorities will be setting up and implementation of an adequate management framework for Natura 2000 network including additional research activities, mapping of marine habitats and species and establishment of monitoring framework. Also, priorities are aimed at restoration of habitats, including those caused by long-standing contamination of soil with mines and unexploded ordnance (especially in forests and forest land) as the prerequisite for sustainable management. In parallel with the protection and restoration the priority will also be on the sustainable use of those resources for economic and social development and on the other measures directed to unlocking economic / employment potential (for example in agriculture and tourism) ensuring green growth. The latter also applies to development potential of cultural heritage that could be supported as far as they ensure valorisation of that potential in a sustainable manner that will provide economic benefits in terms of creating contents contributing to development of tourism related services and employment.

Finally in order to contribute to the **integrated and sustainable urban development**, priority within this Thematic objective will be given to the a) **enhancement of the urban environment**, primarily with the goal to secure adequate monitoring and improvement of the air quality and b) **supporting usage of already existing physical resources** through regeneration and re-usage of brown fields (ex-military and industrial complex) for the economic and social development. The latter will be implemented through the ITI mechanism.

The planned investment framework under this thematic objective derives directly from the **Europe 2020 Strategy** priority related to the overarching targeted of the EU - promotion of **sustainable growth** i.e. economic growth linked with more efficient use of resources. Furthermore the Europe 2020 Strategy sets the need for achieving biodiversity targets, covered by the EU 2020 Biodiversity Strategy and in overall relating to the reversing biodiversity loss and speeding up the EU's transition towards a (natural) resource efficient economy.

As mentioned above, main activities under TO6 are largely aquis-based with the main aim to contribute to compliance with the transitional periods set in the **Accession Treaty** in the waste and water management aquis.

The priorities for funding under this thematic objective are based in the national strategic documents as follows: The National Waste Management Strategy sets the priorities in terms of a) avoidance of generation and reduction of waste quantities at source and quantities of waste to be disposed, with simultaneous increase of material and energy recovery from waste; b) development of infrastructure for an integrated waste management system AEL (Avoidance-Evaluation-Landfilling), and c) reduction of the risks from waste; the Water Strategy and River Basin Management Plans focus on the needs: a) to ensure availability of sufficient quantities of good quality drinking water for supply of population; b) to ensure availability of water in required quantities and of adequate quality for various economic purposes; c) to protect people and assets against adverse effects of water and d) to achieve and maintain good status of water in order to protect aquatic and water-dependent ecosystems; the strategic goals of the Strategy and Action Plan for the Protection of Biological and

Landscape Diversity of the Republic of Croatia relates to the preservation of the overall natural biodiversity that represents underlying value and main resource for further development, ensuring mainstreaming biodiversity through integral protection of nature in cooperation with various sectors including its potential for sustainable development. The Croatian Cultural Heritage Strategy and Tourism Strategy set the development of tourism-related potential of the heritage as one of the priorities. The plan for protection and improvement of the air quality in Croatia sets continuous upgrade of the system for monitoring and reporting on the emissions and air quality as one of the top priority. Finally the Croatian Physical Planning Programme proscribes that the further development of settlements should be based and take into account the existing physical resources and optimal management of physical resources for the public infrastructure and purpose with the accent of further development of the existing infrastructure capacities.

Croatia will address the preservation of biodiversity of agricultural and forestry ecosystems by investments through EAFRD. Croatia has many indigenous breeds of farm animals and plant varieties, which have adapted to specific life conditions in different parts of Croatia. Keeping those varieties by farmers is not always economically but should be maintained in order to preserve biodiversity and genetic reserve. Farmers should be compensated for such practice by special payments. Low intensity land use suitable for preservation of high levels of biodiversity farmland is generally associated with High nature value (HNV). The methodology of determining HNV farmland is based on data from the database on land cover Corine Land Cover (CLC 2000), taking into account the distribution of areas important for biodiversity. Areas of selected CLC classes are combined with internationally and nationally important areas for biodiversity, including areas important for birds, areas important for butterflies and the ecological network Natura 2000 sites. As specificity of Croatia, HNV farmland also includes freshwater ponds of great natural value. Such analysis provides an indicative map of Croatia, according to which 54.4% of the country is under HNV farmland. Abandonment or intensification of agricultural production in these areas has negative impact on biodiversity and it is necessary to encourage and maintain appropriate means of management on HNV farmland.

Agriculture has a significant impact on the environment, which is more or less negative if we take into account intensive agriculture production. Over a long period of time the depopulation and changes in the local economy, as well as the intensification of agriculture where such activity is still present, have changed the landscape characteristics of the area and reduced biodiversity. Leaving the extensive seasonal grazing, having the practice of keeping cattle indoors (except sheep), with decreasing number of animals made grasslands rich in plant and animal species, as well as the open landscapes important for migratory birds, disappeared over the time. The problem is particularly serious in the Karst and mountainous areas where shrubs suppress the valuable grassland species adapted to survive in the poor soil or in holes between rocks with very little water.

Intensified agricultural production and cultivation of the same varieties in lowlands, as well as abandoning agricultural areas in mountains and islands, and other areas with natural or specific constraints is evident to negatively affect biodiversity. On other hand, various agri-environmental measures can make significant contribution to the biodiversity so farmers should be encouraged to implement them and should be supported by special payments to maintain agriculture land in mountain areas, areas with natural or other specific constraints. Some of the interventions applicable under EAFRD, especially those related to Natura 2000 will be considered for implementation under the Rural Development Programme in a later phase of programming period 2014-2020, when all the preconditions are met, possibly by 2018 (2019). The support is to be granted to farmers/foresters in order to address the specific disadvantages and to contribute to the effective management of Natura 2000 sites when compared to the situation of farmers and foresters in other areas not concerned.

Some of the interventions applicable under EAFRD, especially those related to Natura 2000 will be considered for implementation under the Rural Development Programme in a later phase of programming period 2014-2020, when all the preconditions are met, possibly by 2018 (2019). The support is to be granted to farmers/foresters in order to address the specific disadvantages and to contribute to the effective management of Natura 2000 sites when compared to the situation of farmers and foresters in other areas not concerned.

Beside different agri-environment measures compensating payments to farmers for maintaining areas facing natural or other specific constraints and forest –environmental and climate services and forest conservation to forest holders are envisaged through RDP. Such compensation helps farmers to continue the use of unfavourable agricultural land and maintain the countryside, and for forest holders to carry out, on voluntary basis, operations consisting one or more forest-environment and climate commitments beyond the relevant mandatory requirements established by the national forestry act or other relevant national law. It should encourage sustainable forest management primarily in private forests and farming systems in order to prevent land abandonment and loss of biodiversity.

One of the objectives of EAFRD interventions in Croatia is ensuring the ecological integrity and the protecting and restoration current state of rural landscapes, which are largely dependent on good agricultural and forest management practices.

Special attention under EAFRD interventions should be foreseen for maintenance and conversion to Organic farming, thus answering society's demand for the use of environmentally friendly farm practices and in order to support positive trend regarding organic farming practise in Croatia. Number of organic producers increased significantly from 130 in year 2003 up to 1528 in year 2012 accounting almost 2,5% of total agricultural area. The long-term upward trend is reflected in Action plan for organic production development 2011-2016, envisaging about 5000 organic producers on 8% of total agricultural area till the end of 2016. Since organic agriculture is environmentally favourable production and taking into account positive on-going trend there is need for continuation of support to organic farming practice.

Concerning EMFF, Croatia has as a main objective the activities aimed at improving competitiveness and economic efficiency of the fisheries sector keeping in mind as a primary goal the sustainable resource management. Furthermore, the goal shall be to reach the MSY (in accordance with the scientific advice) and implementation of the discard ban. In terms of inspection and control, specific attention shall be given to the issues related to the implementation of the discard ban, as well as the control of IUU issues in general. Also, freshwater ponds, which are mostly located in the area of Natura 2000 sites require special attention and will be investing in them to achieve results that will have an impact not only on production but also environmental protection and conservation of important habitat. In order to protect marine biodiversity, clean up the sea and the ports, Croatia is planning to support the fishermen in collecting marine waste and marine litter. For this kind of operations it is necessary to provide adequate infrastructure on land as it foreseen through modernisation of fishing ports and landing sites.

Intermediate outcomes (targets based on main results)

- Improved waste treatment and management facilities
- Rehabilitated location polluted by waste
- Reduce losses and leakages within the water management system
- Increase accessibility of water related services (water supply, sewerage collection and treatment)
- New business and jobs created by using heritage
- Restored biodiversity and prevention of loss of biodiversity
- New public content developed in the urban located brownfields for various public purposes

Overall impact

- Sustainable growth and balanced regional development

1.3.4

Main funding priority 3. Sustainable and modern transport and network infrastructure

The following ESI Funds and thematic objectives support the achievement of Main funding priority 3 “Sustainable and modern transport and network infrastructure”:

	Promoting sustainable
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	transport and removing bottlenecks in key network infrastructures (TO 7)
ERDF	x
CF	x

The **main results** that Croatia seeks to achieve for each ESI Fund by thematic objective are:

	Promoting sustainable transport and removing bottlenecks in key network infrastructures (TO 7)
ERDF	Elimination of regional road bottlenecks and safety black spots
CF	Improved interoperability and interconnectivity network of railway lines Improved connectivity of physically isolated areas, i.e. southernmost Croatia (Dubrovnik) and inhabited islands The establishment of integrated and clean public transport systems in urban agglomerations Port and inland waterways modernisation

Thematic objective 7: Promoting sustainable transport and removing bottlenecks in key network infrastructures

Reasons for selecting the thematic objective based on development needs and funding priorities:

<i>The need to improve transport connectivity with neighbouring countries:</i>	The geographical situation of Croatia in Europe makes the consideration of the transport connectivity with neighbouring countries of special importance, in particular the consideration of transit traffic in terms of freight and passengers. International traffic in Croatia (with origin or destination in Croatia and transit traffic) is relevant for all the transport modes: rail, road, air, and maritime and inland navigation. For these reasons, it is crucial for a proper system planning to improve passengers' and freight's accessibility and to eliminate existing bottlenecks. Bottlenecks at borders often result in high travel times and low average speeds reducing the attractiveness of international journeys. The elimination of bottlenecks at borders is a special challenge for Croatia due to its accession to the EU and the expected adhesion to the Schengen treaty, which will bring a higher relevance of border crossings with Serbia, Bosnia Herzegovina and Montenegro. It is very important to prepare plans to identify and eliminate the bottlenecks at borders, since the resolution of these issues will enhance the role of Croatia as a transit country in terms of international mobility, in particular for goods, with positive impacts on economy. In order to increase the relevance of Croatia as a transit country in terms of freight international mobility and to increase the role of the selected TEN-T core freight harbour (Rijeka) as one of the main entrance points for freight in Europe, it is necessary to improve freight international accessibility by completing the missing links on the main transit corridors, modernising the freight relevant ports and improving their accessibility (the relevant modes are rail, road, maritime and to a minor extent IWW).
<i>The need to improve passenger regional connectivity in Croatia enhancing territorial cohesion:</i>	Territorial cohesion and reduction of regional disparities is one of the objectives of EU transport policies, in order to ensure accessibility and connectivity for all regions of the Union. A high level of regional connectivity is one of the necessary steps in order to reduce regional disparities and ensure the country's sustainable growth. Croatia faces two different issues in this sense: accessibility of remote towns and villages in less populated and poorer areas, and side connections to the islands, some

	<p>of which are quite far away from the continental coast. As in many countries, also in Croatia the main issue is to guarantee adequate connectivity/accessibility to the main national and regional economic centres. The particular morphology of the Croatian territory, with a high number of inhabited islands, implies an extra constraint in order to assure the territorial cohesion of the country. Due to that, it is necessary to improve passenger accessibility to, from and between the islands. In this sense, the main transport mode is the maritime transport but it is very important also to provide the proper accessibility to the ports on the land side and consequently plan the road network and the related public transport services and other facilities of the coast cities with important passenger ports, taking into account the extra requirements of passengers to/from the islands. The particular morphology of the Croatian territory and the clear leading role of Zagreb as the main industrial and business node of the country make the long distance (node to node) passenger transport within the country particularly relevant despite Croatia not being a big country in terms of extension and population. Long distance accessibility is mainly served by motorway connections on the main corridors, by air transport - supported by the relatively large number of international airports, and in some parts of the country by rail, where the modernisation of the main corridors needs to be carried out.</p>
<p><i>The need to improve passenger accessibility to and within main urban agglomerations:</i></p>	<p>Cities suffer most from congestion, poor air quality and noise exposure. Urban transport is responsible for about a quarter of CO₂ emissions from transport, and 69% of road accidents occur in cities. These issues are felt in the main urban nodes of Croatia, while solutions differ due to the existing infrastructural provision, the geomorphologic characteristics and mobility patterns (e.g. presence of the sea and needs for connections to islands, etc.). In order to improve the situation it is necessary to increase the modal split in favour of public transport and soft modes (pedestrians and cyclists), and in order to achieve that, it is a priority to increase the efficiency and physical, operational and organisational integration of all the modes: railway, tram, trolley and bus. It is necessary to provide as well good public transport connections to the main demand generator centres (such as airports, ports, cultural centres, city centres, etc.). In cities, switching to cleaner transport is facilitated by usually higher availability of public transport services and higher population density.</p>

Strategic objectives in relation to the main funding priority and main expected results through ESI Funds:

- Continuing modernisation of the railway network
- Development of intermodal services
- Improving urban transport services and the quality of travel in urban agglomerations
- Better transport connections provided to major ports in Croatia
- Improving connectivity to/and from inhabited islands
- Elimination of the border bottlenecks at selected border crossings
- Increase transport flows on IWW through improvement of port infrastructure and improved navigability

How the ESI Funds will contribute to tackling the identified challenges and the EU value added:

The transport sector represents a key area for growth and competitiveness, in particular through servicing the other sectors of the economy. Croatia's new interim **Transport Development Strategy**, which is currently under development, has the general goal to achieve an efficient and sustainable transport system on the territory of Croatia, taking into account the new role of the country after its accession to the EU. In order to fulfil this objective, all the interventions proposed by the Strategy will consider the following principles, which are in line with the EU policies, standards and regulations:

ensure environmental sustainability, ensure safety, ensure efficiency, ensure financial sustainability, improve accessibility and social inclusion, improve energy efficiency, improve modal split in favour of public transport, environmental friendly and soft modes (pedestrians and bicycle), increase level of service, ensure quality of service and ensure interoperability of the system. The Strategy builds measures around six key objectives: (1) Improvement of transport connectivity and coordination with neighbouring countries; (2) Improvement of passengers long distance accessibility inside Croatia; (3) Improvement of the passenger regional connectivity in Croatia enhancing territorial cohesion; (4) Improvement of the passengers accessibility to and within the main urban agglomerations; (5) Improvement of freight accessibility inside Croatia; and (6) Improvement of the Transport System Organisational and Operational setup to ensure the efficiency and sustainability of the system. The Strategy, in line with the EU guidelines, presents comprehensive transport concepts developed through the interaction between different transport modes and branches, and as such represents a good basis also for streamlining the ESI Funds investments under this thematic objective.

The investments in transport infrastructure under this thematic objective are prioritised according to their expected economic development impact and according to their contribution to mobility, sustainability, reduced greenhouse gas emissions, and the Single European Transport Area.

Multimodal and interoperable operations in Croatia are still at an early stage of development, thus it is important to modernise and develop multimodal and interoperable transport links in terms of combining at least two different transport modes along the same corridors (i.e. multimodality) and integration of transport concepts across modes (interoperability) in order to develop a sustainable and efficient multimodal and/or interoperable transport system, connecting the Croatian transport network to the trans-European network. As such, a large portion of funds allocated under the **Cohesion Fund** will be used for **improving the railways sector** through modernisation of the railway infrastructure, with the focus of attention being on the development of those parts of the rail network, which form part of the TEN-T corridors in Croatia (see Annex IV). Freight transport is in focus with the aim in assuring enough capacity to service Croatia's main port Rijeka (Corridor V Branch B) and to service international traffic going East-West (Corridor X).

Improved connectivity of physically isolated areas, i.e. southernmost Croatia (Dubrovnik) and inhabited islands is a result to be supported by the **Cohesion Fund**, since the particular morphology of the Croatian territory, with a high number of inhabited islands, implies an extra constraint in order to assure the territorial cohesion of the country. Due to that, it is necessary to improve passenger accessibility to, from and between the islands (*synergies with the objective to establish integrated and clean public transport systems in urban agglomerations, see below, are foreseen*). Developing Dubrovnik airport's infrastructure will provide for good connectivity of this detached but economically very important area of the county (especially in the passenger traffic) instead being a bottleneck now.

The establishment of integrated and clean public transport systems in urban agglomerations is an important result to be supported from the **Cohesion Fund**, which could take different forms in each urban agglomeration in Croatia. Zagreb is the main economic and transport node of Croatia (also for TEN-T core networks of urban, airports and rail-road terminals). This implies a heavy mobility burden on this area, which has to be tackled by a mix of infrastructural, policy and operational (organisational) measures, which stimulate integration with urban public transport. In the city of Zagreb, which is offering relatively good quality and reliable transport, one of the priorities would be to include the surrounding cities and regions in an integrated transport system with the city of Zagreb to allow for an easier, efficient and time-saving commute, to improve the modal split and expand the catchment area. The accessibility of Split node is characterised by the important amount of passengers commuting from and to the islands. Due to this it is relevant to improve the maritime public transport connections and the accessibility to the port by public transport. The development plan of the port shall be taken into account for the proper planning of the transport needs in Split. For Rijeka, which is characterised by the heavy presence of the port in the structure of the city, the top priority would be to improve the accessibility to the port, but this however will be tackled within the objective to eliminate regional road bottlenecks and safety black spots aiming to improve mobility and accessibility of targeted areas, and supported by ERDF (*see below*). With regards to public

transport in Rijeka, there is the potential to develop maritime transport as a public transport mode to complement the bus system and/or to adapt the railway network inside the city for public transportation. For Osijek, which uses tram and bus systems, the objective would be to increase the efficiency and sustainability of the public transport system in order to increase public transport's modal share. The accessibility of Zadar node is characterised by the important amount of passengers commuting from and to the islands. Due to this it is relevant to improve the maritime public transport connections and the accessibility to the port by public transport. Similar to Split, the development plan of the port shall be taken into account for the proper planning of the transport needs in Zadar.

Development of Croatia's inland waterways (investment in port infrastructure in order to provide greater capacity and better services, IWW construction work in order to comply with the desired (increased) class of navigability, improvement and upgrading of River Information Services), which are a part of TEN-T are envisioned as part of the objective to Increase transport flows on IWW. This improvement will provide new dynamics on the Network and potentially have positive economic effect on the surrounding mostly rural areas and will be a significant factor in the modal switch.

Elimination of regional road bottlenecks and safety black spots aiming to improve mobility and accessibility of targeted areas will be supported under ERDF. The measures may include safety upgrade of secondary roads of regional importance with explicit safety features such as barriers, traffic calming measures, improved markings, improved traffic organisation etc., their connection to the main networks, the construction of urban bypass roads in urban agglomerations and the elimination of the bottlenecks at selected boarder crossings.

In line with the overall strategy presented, **Connecting Europe Facility** may be used for transport infrastructure projects in accordance with the Regulation (EU) No 1316/2013 of the European Parliament and of the Council of 11 December 2013 establishing the Connecting Europe Facility, amending Regulation (EU) No 913/2010 and repealing Regulations (EC) No 680/2007 and (EC) No 67/2010, as well as key energy infrastructure projects along TEN-E (i.e. projects of common interest (PCI) according to the list adopted by the EC [147]).

In the National Reform Programme 2014 there are actions proposed as part of transport related reforms, such as the adoption of the national Infrastructure railway Plan, upgrade of railway infrastructure, the establishment of RIS for IWT, which are vital for effective EU funds adsorption, fulfilment of ex-ante conditionalities in the transport sector and also contribute significantly to Europe 2020 targets.

The measures will build upon previous experience in implementing pre-accession and structural funds of the 2007-2013 period.

Intermediate outcomes (targets based on main results):

- Changes in the modal split (by corridor or destination)
- Reduced travelling time in passenger/cargo transport by corridor in minutes/hours (accessibility increase)
- Reduced road fatalities
- Reduced door-to-door travelling time on representative routes within urban agglomerations

Overall impact:

- Contribution to competitiveness and more even regional development

1.3.5 Main funding priority 4. Enhancing labour market participation and quality of the education system

The following ESI Funds and thematic objectives support the achievement of Main funding priority 4 "Enhancing labour market participation and quality of the education system":

	Promoting sustainable and quality employment and supporting labour mobility	Investing in education, training and vocational training for skills and
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	(TO 8)	lifelong learning (TO 10)
ERDF		x
ESF	x	x
EAFRD	x	x
EMFF	x	

The **main results** that Croatia seeks to achieve for each ESI Fund by thematic objective are:

	Promoting sustainable and quality employment and supporting labour mobility (TO 8)	Investing in education, training and vocational training for skills and lifelong learning (TO 10)
ERDF		<p>Widened access to higher education targeted to students at a disadvantage (supported by expansion of student accommodation facilities at selected higher education institutions)</p> <p>Enhanced tertiary education offer in alignment with smart specialisation</p> <p>Establishment of VET schools in targeted sectors linked to smart specialisation, in order to meet the education demands of the population and needs of the labour market, support professional and career development and develop school-business partnerships</p> <p>Better and equal access to quality education at primary and secondary level, also by utilizing the potential of ICT to improve learning methods and content (<i>to be achieved together with investment contributions from TO 2</i>)</p>
ESF	<p>Increased activation of long-term unemployed and those experiencing a skills mismatch on the labour market</p> <p>Reduction of youth unemployment through increased integration of young people, especially NEET, into the labour market and improved school-to-work transition schemes</p> <p>Faster return to work for the short-term unemployed</p> <p>Increased effectiveness of the ALMP measures and related training schemes Improved quality of public employment services, especially in supporting job search and employment by the youth</p> <p>Increased employment through mainstreaming entrepreneurship and self-employment, in particular for the vulnerable groups</p>	<p>Increased participation and more equal access for students at a disadvantage in pre-tertiary and tertiary education</p> <p>Increased employability of graduates by improved quality and relevance of tertiary education programmes and higher integration of Croatian researchers into the European research area</p> <p>Increased access to lifelong learning</p> <p>Increased competitiveness of the workforce through supported participation in adult education programmes</p> <p>Increased quality, relevance and attractiveness of VET programmes</p>

	Strengthening of local labour market and support to local employment initiatives	
EAFRD	Increased employment opportunities and job creation in remote and rural areas through diversification of economic activity and creation of new small enterprises	Fostering lifelong learning and vocational training in the agriculture and forestry sectors
EMFF	Increased job creation and employment opportunities in fisheries and in coastal areas (through diversification of economic activity and creation of new small enterprises)	

Thematic objective 8: Promoting sustainable and quality employment and supporting labour mobility

Reasons for selecting the thematic objective based on development needs and funding priorities:

<i>The need to tackle high unemployment and step up activation of the long-term unemployed:</i>	Croatia's employment rate has been declining from 2008 and fell to 53.9% in 2013 (much below the EU average of 68.5% in the same year). The overall unemployment rate has more than doubled since 2008 reaching 17.6% in 2013. A particular problem is long-term unemployment, which in 2012 amounted to 10.3%, the risk for it especially high among unemployed with low levels of education, older unemployed persons and persons returning to the labour market after prolonged inactivity. Stronger support for entering and staying in the labour market is needed also for vulnerable groups (those at highest risk of poverty and social exclusion).
<i>The need to tackle youth unemployment and support job search by the youth:</i>	The prolonged economic crisis has deepened the already existing structural barriers to effective youth employment. Young people are in a particularly unfavourable position on the labour market and there are more than 100 thousand unemployed youth in Croatia. The unemployment rate in the 15 - 29 age group is constantly rising, up from 15.8% in 2008 to 35.2% in 2013 (43% for the 15 – 24 age group). 18.9% of the young unemployed are long term (12 months or longer) without a job. Further, the NEET rate in Croatia in 2013 was 20.9%, considerably above the EU average (15.8%). Strong action in provision of individualised services and support that will facilitate the transition from the educational system to the labour market is needed, especially through implementation of Youth Guarantee Implementation Plan. Strengthening the role and capacities of the Croatian Employment Service are also needed in supporting job search by the youth. Furthermore, as the macroeconomic trends still foresee a slow recovery period, the measures should also address the insufficient demand from the labour market, as how to ensure the employment, training or internship of young people within 4 – 6 months after completing education or leaving previous employment.
<i>The need to reduce significant regional disparities in employment:</i>	There are substantive variations in unemployment rates among Croatian counties (between 11.2 - 21.9%), which calls for a bottom-up approach and locally driven action too. The rising numbers and increasing heterogeneity of employment services users requires the adaptation and differentiation in service provision, supported by capacity strengthening within labour market institutions.

Strategic objectives in relation to the main funding priority and main expected results through ESI Funds:

- Encourage labour demand to increase the employment rate
- Increase youth employment and employability
- Promote and support self employment, social enterprises and business start-ups

- Increase labour market participation and employability of vulnerable groups
- Strengthen the role and capacities of public employment services and locally provided employment services and other LM institutions, and increase availability and quality of their services
- Encourage job preservation and fast reemployment of workers who lost their jobs due to enterprise restructuring, downsizing or other economic difficulties of their employer
- Strengthen ALMP measures, also through their continuous evaluation and innovation

How the ESI Funds will contribute to tackling the identified challenges and the EU value added:

The Commission put forward two flagship initiatives to catalyse progress under the employment headline target:

- Youth on the move - to enhance the performance of education systems and to facilitate the entry of young people to the labour market
- An agenda for new skills and jobs - to modernise labour markets and empower people by developing their skills throughout the lifecycle with a view to increase labour participation and better match labour supply and demand, including through labour mobility.

Croatia intends to fully support these initiatives through concrete actions, co-funded also by the ESI Funds.

Croatia's main goal regarding the general improvement of the labour market situation is to increase the employment rate to 62.9% by the year 2020, which is the national headline target of the Europe 2020 Strategy promoted in the National Reform Programme 2014. The implementation of the ESI Funds on the labour market implies interventions with a wide range of complementary results expected, which should help in increasing the productivity of the labour as a factor of economic growth, thus contributing to the end of five-year period of unfavourable economic activity.

One of the main results expected is **increased activation of long-term unemployed and those experiencing a skills mismatch on the labour market**, which should help to significantly reduce the risk of poverty and social exclusion. The matching of labour market skills supply and demand and improving the interaction between the labour market and education system is expected to enhance the working-age population employability. Significant growth potential lies in the creation of new flexible jobs and working conditions, capable to adapt to changing economic environment. The investments in this area will also aim to increase opportunities for people from restructuring sector, as well as for other vulnerable groups, to engage in the labour market through employment and self-employment. Planned activities support the retention of workers in employment and adequate adaptation of their skills and competences. The specific activities planned will address the increase of competences of labour force via trainings, mentoring schemes, outplacement and the development of specific employment services in the context of company and sector restructuring as part of the measures aimed at job preservation and reemployment of workers who lost their jobs due to technological change, downsizing, shift in global patterns of production of goods and services or other economic difficulties of their employer. In order to raise the quality of working conditions, protection of workers' health and ensure healthy workers, as well as to preserve of job for workers with disabilities there is a need to improve the occupational health and safety at the national level and at the level of each undertaking.

Active integration of young people into the labour market is to be achieved under the framework of Youth Employment Initiative, as well as through Youth Guarantee Scheme. Positive changes are also expected for the youth not in employment, education nor training through specific measures, which should improve their skills and consequently their position on the labour market. In 2012, the European Commission has adopted a package of measures for youth employment given that youth employment is a priority of the EU in times of economic crisis. The package, among other things includes the recommendations of the Council on the establishment of guarantees for Youth, i.e. **Youth Guarantee Scheme (YGS)**, which was adopted in 2013, In accordance with the recommendation the Member States should ensure that all persons under 25 years are offered quality work, further education, an apprenticeship or traineeship within four months from the onset

of unemployment or the completion of formal education. For Croatia, as a Member State with particularly high youth unemployment (higher than 25%), there are additional EUR 61,82 million (which should be planned alongside other ESF measures) to achieve this from the EUR 3 billion EU Initiative for Youth Employment (YEI) for the period 2014 – 2015. The Member States were invited to submit an implementation plan to the European Commission for YGS, Croatia was among the first to submit a draft **Youth Guarantee Implementation Plan** in October 2013, and will be submitting the final plan alongside the submission of the National Reform Programme 2014 in April 2014. As a considerable amount of people enter the job market after the age of 24 only after they have graduated the YGS in Croatia will focus on youth under the age of 25 and recently graduated persons under the age of 30 years, in offering them a quality job, further education, an apprenticeship or traineeship within four months from the onset of unemployment. Sustainability of such measures is important, as is the continuous monitoring. As for most of the other measures foreseen under this thematic objective, the previous schemes and experience from the 2007 - 2013 human resource development programmes has been taken into account.

Special attention is devoted to **the improvement of position of the vulnerable groups on the labour market**. The most vulnerable groups targeted by the ESI Funds intervention are recognized according to their cause of poverty and social exclusion, so they include unemployed persons, older persons with no income/pension, persons with lower educational attainment, national minorities (especially Roma and Serbs), persons with disabilities and special needs, groups faced with extreme poverty (especially homeless and aslant), Croatian Homeland War veterans and victims. The thematic objective of promoting employment and supporting labour mobility therefore horizontally targets the vulnerable groups, so under every main result sought, there are specific actions envisaged for one or more vulnerable groups. The enhancement of the labour market participation for people with disabilities is planned, as well as the participation of Homeland War veterans and victims, redundant workers from restructuring sectors and national minorities (especially Roma and Serbs).

The increase of employment through mainstreaming entrepreneurship and self-employment remains one of the main results. People looking for employment, especially the ones from vulnerable groups will be offered targeted and tailored training and individualized packages of different ALMP measures for better integration into the labour market. The role of self-employment remains important and is to be further developed to target all the unemployed, with a special attention paid to the vulnerable groups. The main changes refer to the increase in access to financing for business starters, provision of self-employed support and financial subsidies, as well as development of skills, including ICT, entrepreneurial and management skills, mentoring and coaching.

Furthermore, it is generally expected **to increase the effectiveness of the ALMP measures, as well as to improve the quality of public labour market service providers**, especially the CES, but also other LM institutions, namely REGOS, CPII and MLPS (Labour Inspectorate). This includes the increase of coverage and the effect of ALMP measures, together with the implementation of more efficient system of their regular implementation. Further development of vocational counselling system with the introduction of labour market counselling as a standardized profession is needed, together with the setup of a large number of efficient career guidance centres and enhanced career guidance services, initiating alliances for training and apprenticeship to facilitate transition from school to the labour market. This also includes the improvement of analytical capacities in general, with the efficient system for data exchange between relevant stakeholders.

Public labour market service providers are also expected to organise their provision of services and activities in order to address regional and local labour market disparities more efficiently, and to satisfy regional and local specific needs through integrated and targeted ALMP measures. Increased employment opportunities, job creation and regional mobility in disadvantaged areas are also expected, through diversification of economic activity and creation of new small enterprises in remote, rural and coastal areas. Therefore, it is planned **to strengthen local labour market and support local employment initiatives**. The role of local partnerships for employment is going to be enhanced as they complement national employment policies through initiatives adjusted to regional labour market needs and specifics. Therefore, key areas where change is expected include

strengthening capacities of local partnership for employment, increasing their sustainability and effectiveness and strengthening the network of participating stakeholders.

Improved integration of elderly people and balanced gender participation on the labour market is also expected. In order to achieve greater **equality between men and women and reconciliation between work and private life**, specific measures are envisaged to promote more flexible hours, and to improve the availability and accessibility of good quality services such as childcare service, which should help women overcome the difficulties in entering the labour market. With the aim of tackling gender segregation and gender pay gap, educational measures and informational campaigns are to be implemented.

Croatia has gained relevant experience in tackling employment issues through the project approach in the pre-accession period (through the IPA programme). Interventions were on the one hand aimed at different vulnerable groups on the labour market, including PWD, women, youth, and on the other hand dedicated to significant capacity building and development of structures, procedures and processes for improvement of service delivery. In the pre-accession period, 22 Local partnerships for employment were founded, the Labour Market Training Centre set up, preconditions for the functioning within the EURES network created, 7 LLCG centres established, accompanied with the improvement in life-long career guidance procedures and processes, and needs for infrastructural investments in PES examined. Many of the activities and developments initiated in the pre-accession period will continue into 2014-2020, leading to direct improvement of employment situation to certain target groups as well as increase in scope and quality of provided employment services, as reflected in the expected results.

In a situation of an financial crisis and interconnected economic circumstances with restricted access to capital for rural enterprises, support for the creation and development of new viable economic activities particularly started by young people, new investments in agricultural or non-agricultural activities is essential for the development and the competitiveness of rural areas. Furthermore, taking into consideration fact that Croatian agricultural sector facing structural problems especially regarding average of farm size and farmer age structure, there is a strong need for policy response ensuring the future of the this profession. Young farmers can bring new skills and energy, innovations and more efficient farm management. Young farmers could be leaders of know-how transfers and promoters of new investments in agriculture. The introduction of financial instruments for young farmers will be considered in order to bring more investment possibilities and additional value-added by combination of support.

Economic and farm diversification is necessary for growth, employment and sustainable development in rural areas, and thereby contributes to a better territorial balance, both in economic and social terms, increasing directly the farming households' income. Increased employment opportunities and job creation in rural areas through diversification of economic activity and creation of new small enterprises will be particularly encouraged by EAFRD support under RDP interventions through investments in rural start-ups and further development of non-agricultural activities in rural areas.

In addition, with the help of **EMFF**, significant results by implementing the CLLD approach are expected, considering the length of the coast or the existence of fishing areas and communities. Although this is a new approach to fisheries, the results to be achieved through the FLAG's implementation of measures are essential for the entire local community and their consolidation. The implementation of the provisions of the Integrated Maritime Policy in all segments is expected as well.

Intermediate outcomes (targets based on main results):

- Contribution to achieving the national employment headline target of increasing the employment rate in Croatia to 62.9% by 2020
- Higher % of labour force with skills relevant for business
- Employment growth
- Decrease in long-term unemployment

- Increase in the % of population aged 15 – 29 in work and/or in education / training
- Overall impact:**
- Contribution to higher employment rates, sustainable growth and competitiveness, poverty reduction and social inclusion

Thematic objective 10: Investing in education, training and vocational training for skills and life-long learning

Reasons for selecting the thematic objective based on development needs and funding priorities:

<p><i>The need to harmonize education to the labour market needs:</i></p>	<p>The need to harmonize education to the labour market needs is linked to the problems of entry of young people into the job market (young people who are long-term unemployed, young people with low education, who are at higher risk of unemployment), but also to the mismatch of the education system with the needs of the labour market. Every 5th unemployed person in Croatia belongs to the age group 15-24 years (19.1% of total unemployed). Close to 2/3 of all unemployed have a high-school diploma (62.8%), and 11.6% have completed college or university education (the fastest rising group in unemployment since 2008). Although the economy is in a serious downturn and a large number of jobs have been lost due to the recession, in Croatia there is a general mismatch between the type and level of education of the unemployed and the types and levels of education required by the job market or in creating new jobs. Thus, there is a genuine need to ensure the quality of education and relevance of learning outcomes in relation to the skills and competences required by the labour market (for e.g. the number of students enrolled in STEM and ICT or in the field of health and social care is lower in Croatia than in the EU). In order to improve quality and relevance of study programmes with a view to increase employability of students at all levels of education Croatia has developed the Croatian Qualifications Framework (CROQF), which is being used as a tool to reform the system of qualifications at all levels of education in Croatia through the qualification standards based on learning outcomes and aligned with the needs of the labour market, the individual and society as a whole. The mismatching of skills can readily be tackled using ESI Funds on both pre-tertiary as well as tertiary education level (by supporting curricular reform and quality teaching practices, and enabling greater access and participation in education programmes connected to smart specialisation), which would also help to close the gap to tertiary education attainment target of the Europe 2020 Strategy.</p>
<p><i>The need to widen access to pre-tertiary and higher education, especially for students at a disadvantage:</i></p>	<p>The establishment of equal access to good quality education was identified as one of the key objectives of the education system's reform, but certain groups of students still attend the system in conditions of reduced quality and limited availability; e.g. students at a disadvantage, be it with special (educational) needs, of poorer economic (financial) status, members of the Roma minority, etc. Within the previous funding period, available EU funding was used to maximize the extent of changes started in educational system. Interventions have been supported in the field of social inclusion of students at a disadvantage as well as in the overall system with the aim of strengthening investment in human capital and promoting greater employability. Specifically, progress has been made in terms of providing support to tailor-made activities aimed at social inclusion of children and youth with special needs, as well as activities aimed at capacity building of educational institutions (i.e. their staff) in order to be able to adequately respond to different needs of students. Different actions aiming at improving quality of education of persons at a disadvantage were implemented. However, most of these efforts have been too narrow or isolated, through independent projects and programmes, and although the</p>

	<p>results of analysis of the undertaken activities demonstrate their efficiency, there is still no wider or systematic implementation of them. Therefore, it is necessary to implement additional support mechanisms and establish comprehensive and sustainable ways of adequate support that will result in widened access to education at the targeted levels, and of students at a disadvantage in particular.</p>
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Strategic objectives in relation to the main funding priority and main expected results through ESI Funds:

PRE-TERTIARY EDUCATION

- Improve support systems for the education and training of students at a disadvantage, as well as ensure equal access to quality pre-tertiary education

HIGHER EDUCATION

- Widen access and introduce supporting measures to increase the attainment rate of higher education, especially for students at a disadvantage
- Enhance quality and relevance of higher education, qualifications and harmonized study programmes and qualifications standards based on relevant occupational standards
- Ensure quality teaching and research staff in higher education institutions as a basis for improving the quality of higher education
- Strengthen links between higher education institutions, employers and labour market institutions (knowledge triangle)
- Internationalize higher education and integrate it into the European and global Higher Education Area
- Enable successful integration of Croatian researchers in European Research area (ERA) and hence to provide boost for economic growth

LIFELONG LEARNING

- Build and develop a system for lifelong personal and professional guidance
- Develop processes and the recognition of non-formal and informal learning and skills
- Implement a comprehensive curricular reform at pre-tertiary level
- Improve pre-service and continuous professional development of education staff
- Enhance efficiency of quality assurance system at the level of pre-tertiary education
- Increase number of E-schools and encourage the application of ICT in education

ADULT LEARNING

- Improve the quality and relevance of adult education programmes, especially in the fields which are of strategic importance for Croatia
- Increase the involvement of adult citizens in the process of lifelong learning and education

How the ESI Funds will contribute to tackling the identified challenges and the EU value added:

The main results expected from the ESI Funds' investments in the field of education, skills development and lifelong learning are aimed at creating of a more flexible, relevant and quality education and lifelong learning system at all levels), that is attractive and accessible to all. Improved support systems for the education and training of students at a disadvantage, as well as more equal access to quality education will be established. More specifically, the funds are going to support the implementation of the education system reform leading to providing faster response to the changes in the labour market and of the society as a whole, raising the employability and practical skills of the work force and increasing learning outcomes at all levels.

This will be achieved by undertaking a systematic and comprehensive curricular reform at all levels of education (supported also by national funds) as outlined in the Strategy for Education, Science and Technology and the National Reform Programme 2014, but targeted specifically to VET with the support of ESI Funds. The labour market relevance of VET will be improved by the implementation of modernised curricula designed in line with the economic trends and development potential (as formulated within the Smart specialization strategy), which should ensure the acquisition of the key and transversal competences and based on learning outcomes. The strengthening VET teachers' capacities and raising the attractiveness of VET will be supported in order to make VET a desirable

career choice. Support to VET schools in target fields linked to smart specialisation will be provided in order to enhance their infrastructural conditions for acquiring practical skills in specific VET sectors. Entry into education and training in areas with development potential will be reflected through different support mechanisms, such as student scholarships and fellowships, research programmes. The development of new and adjustment of existing programmes will necessarily include a strong cooperation with both research and business sector and other social and economic actors ensuring that the qualifications needed at the labour market are indeed reflected in the programmes to be implemented, more precisely by matching qualification standards with relevant occupation standards. This is of particular importance for further development and increasing the relevance of VET and lifelong learning. With the aim of ensuring **higher participation in lifelong learning** for all groups, and in particular for adult, low skilled and long term unemployed, it will also be necessary to increase the attractiveness and scope of LLL programmes, as well as the quality and relevance of education programmes provided. One of the actions in this field will be creation of targeted educational programmes related to the efficient urban development (e.g. development of LLL programmes for local servants.). These programmes will be developed by higher education institutions and supported through the ITI mechanism.

Curricular reform will be accompanied with more opportunities for work-placements for students as well as training opportunities for both teachers and students, apprenticeships / internships, scholarships, exchange and incentive schemes, but also substantial revision of delivery mechanisms, namely relying on raising the capacities of teaching staff through programmes of initial and continuous teacher training and continuous professional development and more intensive application of ICT in teaching, learning and administration.

Furthermore, increasing the use of ICT-supported learning and access to high quality open educational resources (OER) will contribute to the development of digitally mature schools. A precondition for curricular reform based on learning outcomes and achieving key competencies for LLL at the bottom-up initiatives will be the establishment of Centres for key competencies, which are a solution for a decentralised system. Centres for key competencies should be the focal points in creating a future network of schools that stand out with their own efforts in contribution to the community. These Centres should contribute to decentralisation of the system, availability of flexible, efficient new learning methods, equipment, expert assistance in entrepreneurial creativity and all other skills important for successful lifelong learning.

The need to extend the support provided to students will be addressed by introducing career guidance and counselling services. Furthermore, ensuring access and completion of studies at a disadvantage and under-represented groups will be equally supported.

Comprehensive development of a quality assurance system at all levels, including self-assessment processes and external evaluation will enable more evidence based policy-making oriented towards the improvement of learning outcomes at all levels and making the knowledge acquired more competitive.

Focus on learning outcomes is further emphasised through the implementation of the Croatian Qualifications Framework which set the ground for validation and recognition of competences acquired through non-formal and informal learning and thus aims to increase the openness of the education system and the number of people continuing and completing education. Its effective implementation assumes setting up a system for validation and recognition arrangements, building up capacities of validation practitioners and defining clear quality assurance methods.

Improvements in higher education governance, evidence based decision making and financial and staff management are the precondition for implementation of substantive reforms. It is therefore necessary to improve the efficiency of public financing of higher education and scientific institutions directed at achieving national and institutional strategic goals and achieving the overall goal of increasing access to higher education.

Continuous and all-encompassing support to students at a disadvantage will result in widened access and better integration into education system, achieving higher education levels and enhancing their employability in the future. **Widened access to higher education targeted to students at a disadvantage** is to be supported by expansion of student accommodation facilities at selected higher education institutions (supported by ERDF and implemented also through the ITI mechanism). **Enhanced tertiary education offer in alignment with smart specialisation** is to be achieved by supporting modernisation of teaching practices and activities at selected higher education institutions.

In addition, the ESI Funds will be used to address regional and local disparities in terms of infrastructure availability ensuring equal access at all levels. However, higher education infrastructure investments will be concentrated mainly in urban centres, while the investments in pre-tertiary education infrastructure will be implemented in line with the restructured network of schools.

The unfavourable educational structure in the agriculture, food-processing and forestry sector in Croatia should be addressed by fostering lifelong learning, in form of training courses, workshops, demonstration activities and other appropriate activities with EAFRD support beside formal vocational education mainly supported by ESF. Increased participation in good quality early childhood education and care for children under 5 years of age will be supported limitedly in small rural settlements below 5,000 inhabitants by EAFRD.

Intermediate outcomes (targets based on main results):

- Contribution to achieving the national education headline targets (higher tertiary education attainment rate and maintaining a low % of early school leavers)
- Increased capacities of staff in education and training institutions at all levels
- Enhanced quality and relevance of education programmes at all levels
- Enhanced measures to improve student completion and achievement rate, especially for students at a disadvantage at all levels
- Supported integration of Croatian researchers in the European Research Area
- Increased participation in LLP
- Enhanced infrastructural capacities at pre-tertiary and tertiary levels with improved educational standards and learning environment for students
- Enhanced human potential of persons engaged in the agricultural, food and forestry sectors

Overall impact:

- Contribution to long-term sustainable growth and competitiveness, poverty reduction and social inclusion

1.3.6 Main Funding Priority 5. Active inclusion and reduction of poverty

The following ESI Funds and thematic objectives support the achievement of Main funding priority 5 **“Active inclusion and reduction of poverty”**:

	Promoting social inclusion, combating poverty and any discrimination (TO 9)
ERDF	x
ESF	x
EAFRD	x

The **main results** that Croatia seeks to achieve for each ESI Fund by thematic objective are:

	Promoting social inclusion, combating poverty and any discrimination (TO 9)
ERDF	Improved access to high-quality social and health services, through shifting from institutional care to community-based care Reduced physical, social and economical inequalities in targeted degraded areas by using an integrated approach locally (regeneration programmes involving enterprise

	schemes, community facilities, social housing and social economy projects)
ESF	Labour market integration of vulnerable groups through provision of high quality, integrated and personalized services Improved access to high-quality social and health services, by shifting from institutional care to community-based care Increased generation of social enterprises
EAFRD	Improved local development in rural areas (EAFRD)

Thematic objective 9: Promoting social inclusion, combating poverty and any discrimination

Reasons for selecting the thematic objective based on development needs and funding priorities:

<p><i>The need to address economic and social disadvantages of vulnerable groups:</i></p>	<p>Poverty has worsened during the recent economic crisis, increasing unemployment and hidden employment in the grey economy and vulnerable groups of the population are at more risk of falling below the poverty line. Therefore, stronger support for entering and staying in the labour market is needed for vulnerable groups. The Strategy for combating poverty and social exclusion in Republic of Croatia (2014-2020) [148] defines the most vulnerable groups in the society i.e. those at highest risk of poverty and social exclusion. It differentiates more areas of exclusion: (1) Exclusion according to economic status (the poor, unemployed – especially long-term unemployed, homeless, returnees and displaced persons, migrants-especially asylum seekers and person granted asylum, persons living on islands and in rural areas); (2) Exclusion according to family structure (single households, one-parent households, children without adequate parental care, families with more than two children); (3) Exclusion according to identification (national/ethnic/race/religion minorities, sexual minorities); (4) Exclusion according to age (children, youth, older persons and retired); (5) Exclusion according to crime commitment (prisoners and ex-prisoners, children and youth with behavioural disorders, victims of crimes, especially victims of trafficking and family violence); (6) Exclusion according to education (persons with lower education attainment, young persons that dropped out of education early); (7) Exclusion according to health status – (mentally ill person, person infected by HIV/AIDS and Hepatitis C, persons with problems of addiction, persons with genetic and chronic diseases); (8) Exclusion according to disability (persons with physical and multi-dimensional sensory impairment, persons with intellectual/mental impairment); and (9) Part of Croatian war veterans and victims of war and members of their families. In reality, since the causes of poverty and social exclusion are most often multidimensional, these groups always overlap. Poverty profiles and structure of income sources show that the poor are economically inactive, unemployed or receive low wages (the unemployed, the elderly without pensions, single-person households, single-parent families, families with more than two children, children without parental care, single mothers and older women, people with lower levels of education). With the economic crisis, there is an increased risk of poverty among the better-educated population, the young and economically active population. Problems of social exclusion and discrimination by society and individuals are present in vulnerable groups. In terms of employment, for vulnerable groups it is necessary to establish preconditions for equal access to the labour market, providing activation and integration of support and temporary and targeted efforts in fostering social inclusion and mitigating social and personal consequences of unemployment, so as to strengthen their potential of equal participation on</p>
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	<p>the open labour market. An additional issue in this regard is discrimination, which significantly contributes to increased social exclusion of certain vulnerable groups. Although the regulatory framework for equal treatment and provision of equal opportunities is in place, the fight against discrimination and the implementation of various anti-discrimination measures remains rather limited.</p>
<p><i>The need to increase effectiveness of the social protection system and better target the benefits:</i></p>	<p>Croatia has one of the highest rates of people at risk of poverty and social exclusion in the EU, amounting to 1,370,000 people or 32.3 % of total population in 2012. At risk of poverty rate after social transfers was 20.5%. According to activity status of person, at risk of poverty rate was highest for the unemployed (42.9) and economically inactive (21.8%). The National Reform Programme 2014 formulates the commitment for implementing the EU 2020 Strategy where Croatia's national goal is to decrease the number of persons at risk of poverty and social exclusion by 150,000 by 2020. The increased number of people at risk of poverty and social exclusion results in increase of the number of beneficiaries of social welfare rights (such as cash benefits and social services). A large amount of population (15.4%) lives in condition of severe material deprivation and therefore cannot satisfy the basic needs (such as food, heating and other). For this reason, one of the main aims the social welfare system reform is better targeting of social assistance. The new Social Welfare Act (OG, 175/13) introduced new social right, a guaranteed minimum allowance, which is supposed to prevent extreme poverty. The right to receive minimum allowance is connected with the activation measures, i.e. a person has to actively look for a job, accept educations/pre-qualifications offered by the employment office, participate in public works, etc. Also, a large amount of the social rights beneficiaries are work-able. In order to unify procedures for qualifying for various kinds of social benefits, to modernize the management information systems, reduce costs and increase efficiency, the Government is putting in place a Single Cash Centre, a reform measure promoted in the National Reform Programme 2014, for the administration of the guaranteed minimum allowance and other social benefits.</p>
<p><i>The need to make available high-quality community-based social support and healthcare services:</i></p>	<p>Due to limited availability and accessibility of high quality community-based social services in all regions, investments should focus on expanding and diversifying such services and making them more accessible. The transition from the institutional to community-based services, particularly for children, elderly, homeless, and persons with disabilities as well as other vulnerable groups should be encouraged. Croatia is also facing limited availability and accessibility of healthcare, especially in rural areas, on islands, and in small towns, due to the structural lack of healthcare workers and other barriers to access such as expense and distance. There is a clear need to support establishment and development of primary health care teams in areas where their lack is most severe and to support more efficient models of primary health care provision in order to increase access to health care (e.g. group practices, e-Health services). In order to increase the efficiency and availability of healthcare, and to ensure the sustainability of the health system, there is a need for downshifting of the levels on which the healthcare is provided.</p>
<p><i>The need to address economic and social development of rural areas:</i></p>	<p>The rural areas in Croatia, like many EU's rural areas, suffer from negative trends of economic and social development, often linked to problems of remoteness, ageing of population, lower quality of life in terms of access to public service and infrastructure, compared to urban area. Such trends can be linked to a lack of economic and social opportunities in rural areas, which especially affect the younger population.</p>

Strategic objectives in relation to the main funding priority and main expected results through ESI Funds:

- Ensuring the conditions for a successful fight against poverty and social exclusion and reducing inequalities in society, through innovative multidimensional and/or integrated approaches to tackling poverty
- Establishing a coordinated system of support for vulnerable groups at risk of poverty and social exclusion, and monitoring and evaluation systems
- Implementation of process of deinstitutionalisation and transformation of social welfare homes and connected with it ensuring accessibility and quality of social services, especially community based services
- Achieving a shift from more to less resource-intensive hospital care, from hospital care to primary health care, and further on to home care and self-care
- Decrease difference between rural and urban area in terms of access to basic services and infrastructure related to quality of life
- Enabling Community-led Local Development communities to deliver projects that are responsive to the real area's needs using different sources of funds

How the ESI Funds will contribute to tackling the identified challenges and the EU value added:

Improving social inclusion of most vulnerable groups of society and reduction of high poverty will be supported by a mixture of investments into the modernization of health and social care infrastructure, upgrading and expanding the provision of health and social services focusing in particular on their quality, access and the specific needs of different groups of vulnerable population and supporting the development of social entrepreneurship. The Funds will thus support the implementation of the on-going reforms in the health and social sector leading towards the modernization, increased efficiency, adequacy and sustainability of both health and social care systems and making them more people-oriented.

Various actions will be implemented so as increase accessibility for active inclusion measures in the rural areas, islands and other remote areas, raising awareness of discrimination issues, introduction of specific actions targeting people at risk of discrimination and people with disabilities with a view to increasing their labour market participation, enhancing their social inclusion, and reducing inequalities in terms of educational attainment and health status.

Also, support to volunteering, as a mean of gaining work-related experience for vulnerable groups will be encouraged. In addition, further strengthening of the capacities (skills and knowledge) of the social welfare institutions and NGO's and other social services providers in providing high quality services related to the labour market access will be supported.

In terms of infrastructure investments, the focus will be on increasing the quality and capacity for alternative child care, care for persons with disabilities, elderly and long term care, as well as for homeless, modernization of social welfare centres and increasing the capacities for the provision of community based services in order to support the shift from institutional to community based care and the process of deinstitutionalization while enhancing the access to independent living in the community and making the access to essential services more available at local level. All of the regions have insufficient availability and accessibility of social services provided to members of vulnerable groups as defined in Strategy for Fight Against Poverty and Social Exclusion in the Republic of Croatia 2014 – 2020.

From the resources allocated under the ESF, main achievements are expected in relation to the **provision of high quality, integrated and personalized services** by introducing quality standards, modernizing the delivery mechanisms, broadening the network of social services provided in the community and supporting community based programmes including those initiated by CSOs. ESF funds will also be provided to increase capacities of experts in social welfare system on national, regional and local level, in relation to reform processes in the field of social rights, family and youth policy, and in particularly in the process of deinstitutionalisation, as well as related to effective and

quality service delivery. To strengthen the deinstitutionalization process but also to prevent institutionalization, the Funds will be provided for the development and implementation of rehabilitation programmes and counselling to deinstitutionalized beneficiaries and their families encouraging family reintegration. Upgrading and expanding the services provided to vulnerable groups implies also development of professional rehabilitation system, employment support services including individual and tailor made programmes, training and counselling in order to increase their social and professional abilities and to help them to **prepare for the labour market integration**. On the other hand, the employment of vulnerable groups will be supported through social entrepreneurship.

Additional support for awareness raising campaigns, education programmes on human rights protection and promotion of intercultural activities is envisaged in order to **prevent acts of discrimination**.

One of the main goals of the social welfare system in the following years, as set in Strategy of Social Welfare System Development in Republic of Croatia 2011-2016, Plan of Deinstitutionalisation and Transformation of Social Welfare Homes and Other Legal Entities performing Social Welfare Activities in Republic of Croatia 2011 -2016 (2018) is **implementation of process of deinstitutionalisation and transformation of social welfare homes and connected with it ensuring accessibility and quality of social services, especially community based services**. In order to speed up the process of deinstitutionalisation, an Operational plan of transformation and deinstitutionalisation of social welfare homes in Republic of Croatia 2014-2016 is being prepared, and also the Operational plans for the forthcoming periods until 2020 in accordance with needs and results of deinstitutionalisation until 2016. The Plan of deinstitutionalisation refers to the following groups of beneficiaries: children and youth without adequate care, children and youth with behavioural problems, persons with disabilities (due to social welfare system these are divided into two groups: person with intellectual, sensory and physical impairment, and persons with mental impairment). The Plan of deinstitutionalization, which is a strategic document, has an aim to intensify the reform process of transformation and deinstitutionalisation with the goal to reduce the entry of users in institutions and to increase the number of users leaving institutions into other forms of care in the community, while especially encouraging family reintegration.

One of the main factors of successful deinstitutionalisation is broadening the network of various social services, with special emphasis on programmes for prevention of institutionalisation. With this aim, provision of out of institution services, which include counselling, assistance in home, psychosocial rehabilitation in family/foster family, early intervention, integration in education, day-care and organised housing/supported living should be ensured. In addition, support for social services provided in the community, including social innovative services (broadening social services provided by NGO's, services of personal assistance, sign language interpretation, services for the blind) are planned. In order to ensure the maximum accessibility to social services in the community in all regions and to support process of deinstitutionalisation, there is a parallel ongoing process of social planning on county level, which should be completed by end of 2014 for all 21 counties in Croatia. County plans should support the development of services that are lacking in certain areas and ensure the sustainability of deinstitutionalisation process as well support the right of all persons to have support in their local communities.

The new Social Welfare Act aims improving the quality of social welfare services provision by encouraging the process of deinstitutionalisation and preventing institutionalisation, process of introducing quality standards of social services as well as system of certification of services and making it possible to develop innovative services on the local level that would target person in need. Ensuring minimum quality of services in regards to space, equipment, minimum content of services as well as minimum of number of expert and other workers is regulated by the Government regulation on minimum conditions for provision of social services (Official gazette 712/2014).

In order to increase the availability and efficiency of healthcare, and to ensure the sustainability of the health system, there is a need for downshifting of the levels on which the healthcare is provided. Investments from ERDF and ESF should be used complementary to achieve **a shift from more to less**

resource-intensive hospital care, from hospital care to primary healthcare, and further on to home care and self-care. In some disciplines, such as mental healthcare and palliative care, there is a strong need to develop primary and community-level services, as health professionals with relevant specialty education are currently based almost exclusively in hospitals.

To further tackle the issue of uneven availability of healthcare and the lack of health care workers, support will be given to promotion of career choices and development in health care professions and improving the health protection and occupational safety of health care workers. Furthermore, the provision of community based health care services will be promoted, especially in relation to promotion and prevention of health as well as their integration with social care services.

When developing policy tools to help address the problems of poverty and social exclusion suffered by marginal communities such as (but not limited to) the Roma, the EU has consistently emphasised the interrelationship between issues such as education, employment, health and physical housing conditions. This is certainly the case in Croatia, where interrelationships are similar (but not identical) in urban and rural communities and where improved and replacement housing can be central to a successful integrated regeneration project.

There is a proven direct and causal relationship between poor quality housing, wordlessness and poor health. Interventions to improve housing conditions and to housing that cannot be economically repaired are essential components of urban and rural regeneration activities. Croatia has taken a decision to recognize, not only Roma, but also Homeland War Veterans and refugees, returnees and IDPs (mainly Serbian) as marginalized communities (vulnerable groups). This is cognisant of the EC's guidance on the definition of marginalised communities.

Refugees, returnees and IDPs are marginalised in large part because they have been dispossessed from their homes and are now homeless, living in collective centres and with relatives or friends. Even on return to their homes (or replacement homes), these households often face societal rejection and find it difficult to reintegrate into their old communities. Problems of unemployment, depression and reliance on drugs and alcohol can result.

Homeland War Veterans have had similar experiences and suffer disproportionately from unemployment. Many experience Posttraumatic Stress Disorder (PTSD) and other mental and physical disabilities and disorders occasioned by the recent war. Despite their ethnic status, they often also find it difficult to properly integrate into a community, many of whose members did not share their experiences of domestic war. Homeland War Veterans and refugees, returnees and IDPs are categorised as vulnerable groups. Each of the households within these three marginalised groups can be associated with a territory in Croatia. Often these are the same places, within small towns and settlements close to the borders with Serbia and Bosnia Herzegovina, which are the result of war and extreme economic disadvantages.

Croatia has committed itself to develop the national strategic tools and mechanisms that are required before it embarks upon complex programmes of integrated territorial development. However, it is important to take urgent action to address the needs of these marginalised groups. Action will therefore take place in two ways:

- Treating the three groups as socially marginalised communities vulnerable groups, social housing will be provided in appropriate places, supporting their inclusion and reintegration into Croatian society and their social needs through ESF and mainstream national funds. The locations for these interventions will include relatively prosperous parts of Croatia in urban areas (large towns and cities) and also smaller towns and settlements where the majority of this group is returning and need to be rehoused and reintegrated.
- A few degraded small towns and settlements will be selected as Pilot areas within which approaches to integrated territorial development will be planned, tested and implemented.

For these small towns and settlements, neighbourhoods will be identified that are most in need of physical, economic and social regeneration. In parallel, it will assess the specific housing and social needs of vulnerable groups, including refugees and IDPs associated with degraded territories. In so doing, care will be taken to secure a social mix and the spatial integration of people. Issues of community cohesion will be addressed explicitly and sensitively.

It is expected that the need for improved and replacement social housing will feature to some extent in Croatia's integrated approaches to physical and social regeneration of degraded areas addressing poverty and social exclusion. This is because housing needs feature very strongly in the complex array of social needs experienced by Roma, Homeland War Veterans and refugees, returnees and IDPs but also many areas that were affected by the war in 1990s. ERDF will be matched by public and (where available) private money to create the community and economic infrastructure, necessary to secure sustainability. ESF will be used to support the national provision of social, economic and employment-related services.

Compared with urban areas, rural areas have specific development needs, problems and opportunities that require different development approaches. Poor quality of life, including the availability of services and living conditions and the supporting infrastructure has significantly led to depopulation and undesirable distortions of cultural and landscape values of rural areas. To make rural area more attractive for living, especially remote and sparsely populated settlements, investments in small-scale public service infrastructure in rural areas is envisaged through RDP interventions and supported by **EAFRD**.

EAFRD support under RDP interventions, as a part of local government units development strategies/plans, should stimulate growth and promotion of environmental and socio-economic sustainability in rural areas, in particular through the development of local infrastructure and local basic services, as well as through the renewal of villages and activities aimed at the restoration and upgrading of the cultural and natural heritage of villages and rural landscapes. **To ensure clear demarcation between ESI funds and in order to maximise complementarities and avoid double funding the upper financial limit is set to EUR 1 million for investments in basic service infrastructure in rural areas applicable under EAFRD.** Beside the financial limit, there are other limits set for EAFRD interventions, such as:

- Construction, reconstruction and rehabilitation of water supply/sewage system are limited for agglomerations in rural area under 2,000 p.e.;
- Construction or reconstruction of centres for social services, care and educational facilities, basic services provision facilities, recreational infrastructure for public use, tourist information and small scale tourism infrastructure are limited to settlements in rural area under 5.000 inhabitants and
- Construction, reconstruction and rehabilitation of municipal roads and bridges are limited to uncategorized roads (under responsibility of local governments) and to settlements in rural area under 5,000 inhabitants.

Interventions under RDP in small scale infrastructure should not be prioritised according to common national plans but should be reflection of needs recognised by local governments through drawing up and updating of plans for the development of municipalities and villages in rural areas.

Local development is based on involvement of population and their participation in local development strategies through bottom-up approach under Leader. Local population very often can define their priorities better than centralised policy-maker level, and consequently, implementation goes more smoothly. Transparent operations of partnerships positively affect local development and it is necessary to raise the level of knowledge and skills of local action groups in order to manage these partnerships.

EAFRD support under RDP interventions should stimulate preparatory support for the preparation and implementation of local development strategies, implementation of local development strategies, preparatory technical assistance for cooperation projects and implementation of projects of inter-territorial and transnational cooperation and running costs and animation.

Intermediate outcomes (targets based on main results):

- Contribution to achieving the national headline target for fighting poverty and social exclusion
- Reduced depth of poverty (share of persons living in households below half average (or 60% median) income)
- Increased standard of living (deprivation index)
- Improved coverage by social services
- Improved access to healthcare and health status
- Improved planning of local development
- Improved access to public service and infrastructure in rural areas
- Increased involvement of population in creating local development strategies

Overall impact:

- Poverty reduction, effective social inclusion and less discrimination

1.3.7 Main Funding Priority 6. Supporting the quality, effectiveness and efficiency of public administration and judiciary

The following ESI Funds and thematic objectives support the achievement of Main funding priority 6 “Supporting the quality, effectiveness and efficiency of public administration and judiciary”:

	Enhancing institutional capacity of public authorities and stakeholders and efficient public administration (TO 11)
ERDF	x
ESF	x

The **main results** that Croatia seeks to achieve for each ESI Fund by thematic objective are:

	Enhancing institutional capacity of public authorities and stakeholders and efficient public administration (TO 11)
ERDF	Rationalisation of public administration structures in order to support better quality and more efficient delivery of public services and reduce the administrative burden
CF	Improved administrative system in public administration, improved evidence-based policymaking (with a view to effective implementation of structural reforms and reduction of administrative burden) and improvements in public service quality and accessibility Enhanced efficiency of the civil justice system Strengthened management of human capital in the public sector Enhanced capacities and strengthened social dialogue and partnership with civil society organizations

Thematic objective 11: Enhancing institutional capacity of public authorities and stakeholders and efficient public administration

<i>The need for better quality and more effective delivery of public services:</i>	The demand for effective public administration is increased as it has a strong impact on various aspects of economic and social development. The Council encourages further progress on addressing the low efficiency of the judiciary, burdensome business regulation and implementing prevention mechanisms to fight corruption in the public sector. The need for change in abovementioned fields is also reflected in the statistical data
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	for Croatia, such as the Government effectiveness ratings (69%, below the EU-27 average 82%) and the Corruption Perceptions Index of Transparency International (CPI) where Croatia rated 48, well below the average of EU-27.
<i>The need to rationalize public administration structures and reduce the administrative burden:</i>	In Croatia, regulatory quality is still not at the satisfactory level. The indicator of the quality regulation of The World Bank reflects the perceptions and attitudes about the ability of government in the formulation and implementation of those policies and legislation that allow and encourage private sector activities. In addition to abovementioned areas for improvement, there are two important components that impede improvement of public administration efficiency: complexity of public administration structures and processes, and a lack of mature system of motivation and management of human resources in public administration and judiciary. Low trust in public administration, low transparency rate, comparatively high perception of corruption rate and not fully efficient judicial system impede the investment climate and increase uncertainty for citizens. For improving public administration structure, effectiveness, management style, transparency and quality of regulation, it is further needed to strengthen public administration IT capacities, human resources and public services with aim to achieve "smart public administration".
<i>The need to strengthen civil society dialogue:</i>	Involvement of civil society organisations and other stakeholders in the policymaking and policy delivery process has direct influence to the increase of transparency and trust in public administration. During the pre-accessions period, most investments from CARDS, PHARE and IPA I component were focused on capacity building of the CSOs in the fields of anticorruption, antidiscrimination, social services delivery and environmental protection. The main goal of these projects funded under the pre-accession programmes contributed to strengthening the role of CSOs as important was preparation of CSOs for the role of equal stakeholders in policy making process in Croatia. One of the lessons learned from pre-accession period is that the durability of reforms in key policy areas related to socio-economic growth largely depends on the continuity of investments in strengthening capacities of CSOs, but also in building solid structures for policy implementation. However, policy coordination and dialogue between the key stakeholders CSOs and national, regional and local level authorities remains weak. CSOs in Croatia still face numerous challenges due to the lack of human and financial resources, insufficient capacities for policy analysis and reuse of public data, undeveloped potential for mobilizing citizens and volunteers in policy development processes, lack of sustainable structures for open dialogue with national and local authorities, and still rather low level of recognition of civil society as valuable partners in shaping and implementing policies at all levels of administration. In order to increase contribution of civil society organisations to the development and implementation of public policies at local, regional and national levels additional investments are needed to build capacities of civil society organizations and create environment for more open, inclusive and effective governance models. As emphasized in the National strategy for the creation of an enabling environment for civil society development, strengthening capacities of civil society organisations active in local communities should be combined with training programs for civil servants and officials on conducting timely and effective multi-stakeholders policy dialogue.

Strategic objectives in relation to the main funding priority and main expected results through ESI Funds:

- Improve the quality and delivery of public services

- Commitment to public administration reforms with a view to improve efficiency, increase transparency and reinforce anti-corruption mechanisms
- Develop knowledge, capacities and skills in public administration employees and institutions and modernise and strengthen accountability and professionalism in the public administration and judiciary
- Enhance the efficiency of the judiciary
- Strengthen policy coordination and evidence-informed policymaking in public administration
- Strengthen capacities of civil society organisations and civil society dialogue

How the ESI Funds will contribute to tackling the identified challenges and the EU value added:

Better delivery of quality public services is one of the most important areas where changes using ESI Funds are expected. It is essential to establish efficient, accountable and transparent public administration and judiciary, which will provide fast, accurate and result-oriented services to its citizens and businesses.

Furthermore, strengthening the administrative capacity and enhancing the efficiency of public administration and judiciary should be ensured in order to implement core social and economic reforms and measures to address various policy challenges, thus contributing to the implementation of the Europe 2020 strategy. Sufficient capacity and efficiency of public administration is a necessary prerequisite for successful reforms and effective investments.

In order to **improve the implementation of public policies** several activities are foreseen. It is necessary to improve the evidence-based policymaking and decision making process by introducing quantified impact assessment approach, to enhance the consultation process with the interested stakeholders and civil society, to support preparation of integrated territorial investment strategies (including for urban areas), to improve strategic and spatial planning and to enhance actions of data gathering and processing within different areas of public administration and judiciary. In order to produce better outcomes, policy decisions should be better informed by available evidence and should be based on rational analysis. As well it is important to work further on improvement of public administration structure and reducing the administrative burden by strengthening inter-institutional cooperation among different levels of governance, developing efficient models of communication and improving the accessibility to public administration bodies for citizens and businesses.

Better delivery of quality public services should be achieved in order to stimulate doing business, to support entrepreneurship and to help citizens. This area includes development of standards, simplified business related procedures and uniform practice of their implementation as well as strengthening the management oriented to strategic planning and financial management. Special attention should be given to provide public services to different target groups. Actions providing better delivery and access to the public services should be supported in coordination with Thematic objective *Enhancing access to, and use an quality of, information and communication technology*, and are directly linked with the **development of e-public services**. This set of actions should also be in accordance and close connection with the strengthening the efficiency of judiciary.

Strengthening the efficiency and transparency of the judiciary should be implemented in order to encourage business environment and to provide the sense of legal security to the citizens. The main important area of this process is **further reorganization and rationalization of judicial bodies**, which will contribute to the improvement of the efficiency and quality of justice procedures and will be implemented through activities such as analysing the results of implemented rationalization of judicial bodies' network and efficient management of the justice system.

The second important area, which should be linked with Thematic objective *Enhancing access to, and use an quality of, information and communication technology*, is **further informatization of the judiciary, respectively developing, upgrading and introducing different ICT tools and services**. It will contribute to the better organization of the work processes and increase the quality of provided

judicial services, improvement of the land registry system, open the public administration and judiciary to the citizens and business entities and make this sector more efficient, transparent and available. Within this area as the main activity it is planned to enhance the capacity of ICT usage of civil servants and judicial officials, including e-learning.

Reorganization and rationalization of judiciary will contribute to shortening the length of proceedings, decrease in the number of requests for protection of the right to trial within reasonable time, reduction in the number of employees, better opportunity to organize work processes, more balanced utilization of existing resources, establishment of common services (IT service, common accounting, delivery, etc.), more judges working on cases, harmonised and unified case law and balance in workload distribution, bigger possibility for specialization of judicial officials and greater mobility of judicial officials and court staff.

Specifically, with respect to **ERDF**, investments are aimed at rationalisation of public administration structures in order to support better quality and more effective delivery of public services and reduce the administrative burden (e.g. in order to enhance the efficiency of the civil justice system and support reorganisation and restructuring of the regional commercial court network in line with the ongoing judiciary reform, etc.).

Strengthened management of human capital in the public sector (civil service and justice system) is the main precondition of efficient and effective public administration. Human resources should be based on the efficiency, high competences and result orientation through the system of education and continuous lifelong trainings. It is necessary to implement reform measures in the career development system, to ensure merit-based promotion and reward mechanism in order to decrease the turnover and to attract qualified personnel within the civil servants in public administration and judiciary, to build the capacity for training delivery and to introduce mechanisms of development and capacity building of the management structures within the public administration and judiciary.

Regarding the justice system, the main activities related to human resources development and management are development and implementation of modules for different judicial areas (such as European civil and commercial law, cybercrime) and foreign languages for judges, state attorneys and judicial advisors, as well as improving the initial programme of trainings for judicial officials.

Strong and actively involved civil society organizations and enhanced social dialogue processes enable more efficient and effective development of public policies. Civil society organizations (NGOs and social partners) are vital partners for decision-makers, as they are best placed to know specific population's needs in terms of development. Thus, it is essential to actively involve them in the policy-making processes and development of procedures as well as to strengthen their capacities in order to make public administration and judiciary more transparent and accountable. In order to increase transparency it is important to intensify their participation in development and implementation of public policies at all levels of governance. All mentioned will help to improve policy processes in a more transparent and accountable way. Also, competence development of CSOs in general and specific areas will effectively contribute to the design of policies including service delivery mechanisms, which best respond to the needs of target population. Furthermore, development of the social dialogue is essential in order to contribute to the quality and continuity of the processes within the public administration, increasing at the same time the efficiency and sustainability of partnership approach between the stakeholders and enabling better understanding of problems and policy development needs.

Intermediate outcomes (targets based on main results):

- Increased government effectiveness
- Increased satisfaction of citizens with public services
- Increased predictability in the institutional and policy environment (measured through stable budget allocations, i.e. decreased budgetary volatility)
- Increased judiciary effectiveness (i.e. reduced backlog of unresolved cases in the judiciary)

Overall impact:

- Reduced administrative burden and improved trust in government and justice institutions

1.4 The indicative allocation of support by the Union by thematic objective at national level for each of the ESI Funds, as well as the total indicative amount of support foreseen for climate change objectives

1.4.1 Table: The indicative allocation of support by the Union by thematic objective at national level for each of the ESI Funds (EUR) (total Union support, including the performance reserve):

	ERDF	ESF	CF	EAFRD	EMFF	TOTAL
1. Strengthening research, technological development and innovation	664,792,165			11,700,000		676,492,165
2. Enhancing access to, and use and quality of, information and communication technologies	269,441,037					269,441,037
3. Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF)	997,457,755			742,539,553.75		1,739,997,309
4. Supporting the shift towards a low-carbon economy in all sectors	582,662,074			120,180,000		702,842,074
5. Promoting climate change adaptation, risk prevention and management	120,396,147			413,480,000		533,876,147
6. Preserving and protecting the environment and promoting resource efficiency	392,211,368		1,649,340,216	289,880,000		2,331,431,584
7. Promoting sustainable transport and removing bottlenecks in key network infrastructures	400,000,000		910,205,755			1,310,205,755
8. Promoting sustainable and quality employment and supporting labour mobility		446,756,129		90,000,000		536,756,129
9. Promoting social inclusion, combating poverty and any discrimination	378,511,639	328,000,000		298,786,652.5		1,005,298,292

	ERDF	ESF	CF	EAFRD	EMFF	TOTAL
10. Investing in education, training and vocational training for skills and lifelong learning	259,914,791	525,500,000		9,000,000		794,414,791
11. Enhancing institutional capacity of public authorities and stakeholders and an efficient public administration	40,000,000	135,776,944				175,776,944
Technical assistance	216,112,612	80,000,000		50,655,543.75		346,768,156
TOTAL	4,321,499,588	1,516,033,073	2,559,545,971	2,026,221,750 ³⁵		10,423,300,382

1.4.2 Table: Information on the Youth Employment Initiative (YEI), which is programmed under thematic objective 8 "Promoting sustainable and quality employment and supporting labour mobility":

YEI specific allocation	EUR 66,177,144
ESF matching funding	EUR 66,177,144
Total YEI Resources	EUR 132,354,288
YEI Resources for young persons residing outside of the eligible regions (Article 16 ESF regulation ³⁶)	-

1.4.3 Table: The share of ESF of Structural Funds (ERDF and ESF):

Share of ESF in the Structural Funds (ESF and ERDF) resources for the operational programmes for the Convergence and Regional competitiveness and employment objectives in the 2007-2013 programming period	
ESF minimum share in the Member State ³⁷	24.60 %
The share of ESF of the Structural Funds resources in the 2014-2020 programming period ³⁸	25.97 %

1.4.4 Table: Information on the allocation to technical assistance under Cohesion policy, by category of region, where appropriate:

Fund	Category of region, where appropriate	Allocation to technical assistance (EUR)	Share of technical assistance of total allocation (by Fund and by category of region, where appropriate)
ERDF	<i>Less developed regions</i>	216,112,612	2.57 %

³⁵ Financing of complementary national direct payments for Croatia according to Art 40 of Regulation (EU) No 1305/2013 of the European Parliament and of the Council is excluded

³⁶ This amount cannot exceed 10% of total YEI resources.

³⁷ Calculated in accordance with Annex IX of the CPR.

³⁸ Calculated based on total amounts by ESI Fund included in the first table under section 1.4.1.

	<i>Transition regions</i>	-	-
	<i>More developed regions</i>	-	-
ESF ³⁹	<i>Less developed regions</i>	80,000,000	0.95 %
	<i>Transition regions</i>	-	-
	<i>More developed regions</i>	-	-
CF	N/A	-	-

1.4.5 Total indicative amount of Union support for climate change objectives (EUR) (total Union support, including performance reserve):

EUR 2,387,594,134

³⁹ According to Article 119(1) CPR the specific allocation for YEI may be taken into account by a Member State in the calculation of the limit to the total amount of the Funds allocated to the technical assistance of the Member State.

SECTION 1B

1.5 The application of horizontal principles and policy objectives for the implementation of the ESI Funds

1.5.1. Arrangements for the partnership principle (with reference to Article 5 CPR) (Article 14 (1) (c) CPR), including an indicative list of partners and a summary of the actions taken to involve those partners as referred to in Article 5 CPR and their role in the preparation of the Partnership Agreement and the progress report as defined in Article 46 CPR

In accordance with the multi-level governance principle outlined in Article 5 of the CPR and the Delegated Act on the European Code of Conduct on Partnership [149], the PA and the programmes are prepared in consultation with public authorities (including those at national, regional and local levels), social and economic partners and representatives of the civil society organisations. Partners are involved throughout the entire process, in the preparation of PA, programmes and progress reports and in the preparation, implementation, monitoring and evaluation of programmes. The partners shall also participate in the Monitoring Committees for programmes, as described under the heading *Arrangements and structures to coordinate to support the complementary use of the ESI Funds and avoid duplication, including joint Monitoring Committees, common monitoring and evaluation arrangements etc.*

The process of programming for 2014-2020 started in spring 2012. Line ministries, under the coordination of MRDEUF, prepared the analysis of socio-economic situation, as well as SWOT tables with the needs and potentials for future development, taking into account the Croatian legislative and strategic documents, experience from the IPA programming, as well as programming of the SCF 2007-2013, and later on Croatia's Economic Programme 2013, related Council conclusions and the EC Position paper as well.

In September 2012, the Government of Croatia adopted a Decision on the establishment of the Coordination Committee for the preparation of programming documents for the financial period of the EU 2014 - 2020 and determining the responsibilities and tasks of the bodies involved in the work of the Coordination Committee designating MRDEUF as the body responsible for the **overall coordination** in preparation of strategic documents and operational programmes for the use of ESI funds 2014-2020 [150]. All ministries and a representative of the Prime Minister's Office are included in the work of the Committee, which is responsible for stirring the process of preparation of programming documents for the 2014-2020 period. Cooperation with the Ministry of Agriculture, responsible for the preparation of the RDP and OP EMFF is an integral part of the PA and programme's preparation process.

The Committee adopted the calendar for 2014-2020 programming which is based on the estimation of administrative capacities of Croatian institutions and on the prediction of legislative progress at EU level. The calendar includes actions for the preparation of the PA and OPs, their approval by the Government and submission to the EC. The Committee also established **Thematic working groups** (TWG) and assigned tasks in the programming exercise.

The main task of the TWGs is the preparation of the draft programming documents. The composition of the TWGs is designed in accordance with 11 Thematic Objectives proposed by EC in the (then) draft Cohesion policy Regulations for 2014-2020. When composing TWGs, the **partnership principle** was respected, i.e. representatives of the civil society organisations (CSOs) and other non-government organisations (NGOs) have been included in every TWG and actively participated in their work, as well as representatives of regions and other relevant partner institutions. The participating SCOs/NGOs were selected through an open call for nominations, the members of the Council for the Development of the Civil Society decided on the representatives by applying a majority vote method of selection. Representatives of social partners have been included and actively participated in work of TWGs dealing with employment, social policy and education.

Distribution of TWGs in relation to Thematic objectives is the following:

- TWG 1 on *Strengthening research, technological development and innovation (referred to in*

- Article 9(1)) and Enhancing access to and use and quality of information and communication technologies (referred to in Article 9(2)),* lead by the Ministry of Economy
- TWG 2 on *Enhancing the competitiveness of small and medium- sized enterprises (SMEs) (referred to in Article 9(3)),* lead by the Ministry of Entrepreneurship and Crafts
 - TWG 3 on *Supporting the shift towards a low-carbon economy in all sectors (referred to in Article 9(4)), Promoting climate change adaptation and risk prevention (referred to in Article 9(5)), and Protecting the environment and promoting the sustainable use of resources (referred to in Article 9(6)),* lead by the Ministry of Environment and Nature Protection
 - TWG 4 on *Promoting sustainable transport and removing bottlenecks in key network infrastructures (referred to in Article 9(7)),* lead by the Ministry of Maritime Affairs, Transport and Infrastructure
 - TWG 5 on *Promoting employment and supporting labour mobility (referred to in Article 9(8)), Investing in skills, education and lifelong learning (referred to in Article 9(10)), and Promoting social inclusion and combating poverty (referred to in Article 9(9)),* lead by the Ministry of Labour and Pension System
 - TWG 6 on *Enhancing institutional capacity and efficient public administration (referred to in Article 9(11)),* lead by the Ministry of Public Administration

A list of all members of the Committee and TWGs is publicly available on-line at the MRDEUF web site [151].

The first presentation of the identified areas of intervention and the possibility to express their opinion on importance of selected priorities was given to the representatives of stakeholders and wider public (that are not part of the official process of drafting and deciding on the planning documents), at the public consultation conference, which was held on 6-7 June 2013 in Zagreb.

Besides the public administration and judiciary representatives of TWGs, representatives of the scientific community, research institutes, civil society representatives, associations of regional and local government units, association of employers, trade unions and others were invited to the event to engage in discussions. In total there were almost 400 participants from all over Croatia. Following the introductory sessions, with general information on the overall process and significance of the programming process, a set of six separate discussions by TWG was held, each one covering a narrower and more specific topic for debate. TWGs' proposal for investment priorities covered a broad spectrum of possible interventions, therefore more of a thematic concentration was needed. In order to progress towards prioritisation of areas for possible intervention under the ESI Funds, parallel discussions were held where first the outcome of TWGs' work was presented and then invited panellists discussed potential outcomes and prospective investment areas (results-oriented approach). Following the debate the participants could vote on the desired order of priorities.

In total 560 questionnaires were received back from partners with answers on the priority order of the investment areas by thematic objectives. A wide agreement on most important areas of investment for Croatia has been reached at this event, which was the starting point for drafting of the text of the PA and OPs. All the materials discussed at the public consultation conference have been posted on the website of MRDEUF, with the possibility to fill out an on-line survey. As part of the on-line survey, MRDEUF received a total of 3,564 responses from the public. **The most interest from the public was expressed in education issues.** All the answers and reflections from the survey have been published online and taken into account upon revision of programming documents.

At regional level, a series of information events called "*Regional Days of EU Funds*" were and will continue to be organized, which enable better acceptance and understanding of the process at the local level. Lectures as part of "Regional Days of EU Funds" are for the general public, local and territorial (regional) self-government, regional development agencies, civil society organizations, universities and educational institutions, social partners, non-profit organizations and institutions, institutions and organizations in the field education and employment, chambers of commerce, SMEs, industry, public and non-public sector companies, businesses and all others who are interested in EU funds. In each region (city) different trainings are implemented according to actual regional

and local needs, the geographic location of each city and the possibilities of cross-border cooperation.

In September 2013, a two-day **workshop** was held with **expert groups**, comprising over 40 prominent Croatian specialists in 9 different areas related to programming, with also the representatives of TWGs. The goal of the workshop was to refine the logical framework of the programming documents and gain expert insight into the development potentials and possible ways to capitalise on these potentials using the ESI Funds. The outcomes of the workshop included the refined logical framework and a list of possible priority actions for ESIFs. The second and consecutive versions of the PA have been improved using these inputs.

Programming of the RDP was a parallel process lead by the Ministry of Agriculture, but with extensive participation of their representatives in the relevant TWGs. The process started already in 2012 with establishment of the **Council for Rural Development**. The Council has the advisory role in the process of preparation of RDP for the period from 2014 to 2020 and acting on two levels. On first level, the Council for Rural Development had meetings in July and October 2012. During the first meeting, the results of negotiations between Croatia and EC under Chapter 11 were presented to all Council members by the Ministry's representatives. Also, Council members were informed with the proposals of the EU Regulation regarding Rural Development, which was starting point for drafting RDP. Action plan for drafting RDP was presented as well. The first draft of the RDP for the 2014–2020 period was presented at the second meeting held on October 31st, 2012. Council's members provided comments and suggestions on sectoral and SWOT analysis and the first of text. Received inputs were taken into account and included in later during re-drafting of the RDP.

Wider expert group of representatives from professional agricultural organizations and associations have been involved through the second level of the Council for Rural Development. Ministry representatives have presented possibilities of the first draft RDP 2014 - 2020 through widely open public debate. The public debate was organized through 21 public presentations of drafted RDP in all counties. Debates included a wide range of social, environmental and private stakeholders including partners from the second level of the Council for Rural Development.

After presented possibilities of the draft RDP 2014-2020, the MoA received a substantial number of comments and suggestions from stakeholders groups, which were later incorporated in re-drafting of the RDP (wherever relevant).

The first round of public hearings related to RDP started with presenting of RDP draft in all Croatian' counties during March 2013. Stakeholders' comments were received, and after analysis, included in programming process of RDP. The Second round of public hearings was held in July 2013 in four major Croatian regions, respectively in city of Osijek, Rijeka, Split and Zagreb.

Consultations over the 2014-2020 programming documents have also been carried out with the Croatian Parliament in early 2014.

Additionally, a **Consultation document** has been prepared by MRDEUF outlining the strategy for investing the ESI Funds in the period 2014-2020, and made publicly available to the Croatian people through the Internet. The investment strategy was presented at the 3-day Partnership consultation event held in Zagreb in December 2013, with participation from all the TWGs including the Ministry of Agriculture who presented the RDP and OP EMFF programming process and strategy, where the investment strategy laid out in the PA was positively accepted by relevant partners. Responses to the strategy, identified priority areas of action and other key issues in the programming have been invited also by way of filling the Consultation form accompanying the Consultation document. The deadline for submitting responses was 2 months (until 20 January 2014). The largest response was received from the private sector (SMEs and large companies, 52.7%), followed by various associations (13.2%) and representatives of the regional and local self-government units (10%). The rest of the responses came from the academic community (7.9%), public institutions (7.9%), individual citizens (5.3%) and others. Responses received from the partners were mostly affirming correctly identified development needs and potentials, but highlighted the deep structural nature of

problems as underlying causes (e.g. almost all of the responses from the private sector referred to administrative barriers, and a high number of responses stated the need for a long-term national strategic document and national strategic goals which would make it easier to position the priorities in the ESI Funds context as well). Most respondents underlined the need for broadening the proposed investment areas, especially under the main funding priorities *Promoting energy efficiency, renewable energy and protecting natural resources* and *Innovative and competitive business and research environment*. Interestingly, there seems to be polarisation of opinion on the need to more territorially concentrate certain investments with some respondents stating that a horizontal approach would work better. The responses will be analysed in detail and discussed at the next partnership event (planned for April 2014), and used to refine the strategies and proposed actions in the final programming documents. For this stage of consultations, expected inputs of partners and stakeholders include comments and proposals to the wording and specific activities proposed, which will be incorporated in more mature versions of the texts of OPs.

In the information and publicly areas, MRDEUF ensures that the general public is informed on the preparation of the programming period 2014-2020 through a specialized web site www.strukturnifondovi.hr, as well as through the aforementioned regional information days. There will be a minimum of one conference per OP organized with a goal to have a number of sectoral workshops or panels to discuss particularly sensitive issues such as key indicators and financial allocations.

MRDEUF shall take care that the relevant documents are prepared and made available well in advance in order to allow for sufficient response; clear consultation deadlines shall be communicated; channels shall be made available to the partners through which they can ask questions and provide contributions (i.e. a web address is available to all interested parties to provide comments); structured feedback shall be prepared and made available to the partners and publicly. Special care shall be taken to ensure dissemination of the outcome of the consultation processes.

In accordance with Article 5 of the CPR, the partnership principle will also be applied in the implementation phase of the PA and programmes. Cooperation with the TWGs and other relevant partners will continue by involving them in the work of the **National Coordinating Committee** (NCC) [152] and the Monitoring Committees (MC) of individual programmes established by the Managing Authorities (MA) as described under the heading *Arrangements and structures to coordinate to support the complementary use of the ESI Funds and avoid duplication, including joint Monitoring Committees, common monitoring and evaluation arrangements etc.* Relevant partners, as full members of the MCs, shall be regularly informed on the state of play of implementation of the programmes and shall be involved in evaluating the effectiveness and efficiency of the use of all ESI Funds. In the implementation process of the programmes expert working groups will be set up by the MAs under MCs involving relevant partners, who shall actively cooperate with the relevant MAs of the programmes on the preparation of progress reports.

1.5.2

Promotion of equality between men and women, non-discrimination and accessibility (with reference to Article 7 of CPR)

The policy for the protection of human rights, antidiscrimination policy, policy of gender equality as well as equality of national minorities is accepted at the highest national level through the **Constitution**, decisions of the Croatian Government and the Croatian Parliament. Integral parts of the strategic framework for the promotion of equality are also national plans, programmes and strategies, which define goals and prescribe measures to be taken for the improvement of general living, social and economic conditions of the identified groups. Related legal acts and the supporting strategies and programmes have been transposed as part of the *acquis communautaire*.

The most important legal acts, strategies and programmes promoting non-discrimination, gender equality and accessibility in Croatia are the following:

- Anti-discrimination Act (Official Gazette, No. 85/08)

- Act on Gender Equality (Official Gazette, No. 82/08)
- National Policy for Gender Equality 2011-2015 (Official Gazette, No. 99/11)
- Law on Professional Rehabilitation and Employment of Persons with Disabilities (in the adoption process)
- National Plan to Combat Discrimination 2008 - 2013
- National Strategy for Protection Against Domestic Violence 2011 – 2016
- Strategy for the Development of Women Entrepreneurship in the Republic of Croatia 2010 – 2013
- National Program for Protection and Promotion of Human Rights 2013-2016
- National Strategy for Equal Opportunities for Persons with Disabilities 2007-2015
- National Strategy for Roma Inclusion 2013-2020
- Action Plan for the Decade of Roma Inclusion 2005 – 2015

The **Labour Act** [153] is the most important legal act containing provisions for the prevention of discrimination in the field employment; It has been aligned with Directive 2006/54/EC of the European Parliament and of the Council on the implementation of the principle of equal opportunities and equal treatment. A Gender Equality Ombudsperson is responsible for the monitoring of the respect and proper implementation of the legal requirements.

The interventions to be financed from ESI Funds not only have to be in line with the equality principles, but should have synergic effects and promote the practical implementation of the gender equality, non-discrimination and accessibility policies wherever possible.

For the purpose of preventing discrimination, promoting accessibility and equality between men and women, these principles will be applied across all programmes, by means of positive action measures and activities targeted to support disadvantaged groups. This approach will be integrated into the ESIF programmes managing documentation (e.g. programme manuals, guidelines for applicants, etc.) As different ESI Funds funded programmes may contribute to the promotion of equality, non-discrimination and accessibility to a varied extent, tailor-made solutions are prepared to set either obligatory or optional requirements on project level. Careful consideration is needed to reach the best possible results on project level which would contribute to the overall programme level policy goals, minimizing the necessary administrative burden on the project applicants.

The fulfilment of horizontal principles will be monitored at the project level through monitoring reports, as well as through control of project implementation on the spot and subsequent evaluation of the contribution to the horizontal principles objectives. It is ensured throughout the whole programming period that relevant data on the progress on project level is collected and uploaded in the MIS and thus regular reporting is accurate and evidence-based.

In accordance with the partnership principle, relevant civil society organisations and NGOs, representing gender equality, non-discrimination and the interest of disadvantaged groups are involved in the preparation of programmes, and will be involved in the monitoring and evaluation of the PA and programmes through the Monitoring Committees.

1.5.3 Sustainable development (with reference to Article 8 of CPR)

As already outlined in the document, the three main national development goals in the 2014-2020 perspective are **economic growth, employment growth and preservation of national resources**. These goals are in line with the goals of the Europa 2020 strategy which among other elements, promotes sustainable growth as one of the most important determinants in EU's development for the forthcoming period. Given that the principles of sustainable growth should be contained and incorporated in all sectors of economy and development, a special attention will be given to environmental protection, resource efficiency, climate change mitigation and risk prevention and management in the implementation of pertaining programmes. Results of implementation of interventions in various sectors will have a significant, mostly positive and beneficial influence to the three pillars of sustainable development: economy, environment and social equity.

One of the most important principles, which will be respected in implementation of the programmes, is the **'polluter pays' principle**, which is already incorporated in the Environmental Protection Act (OG 80/13). According to the provisions of the aforementioned act, the polluter is obliged to cover the costs arising from polluting the environment, removing the damage from the environment, as well as costs for measures of preventing environment pollution.

In line with 2001/42/EC Directive and the national regulations, **strategic environmental assessment** is carried out for the pertaining operational programmes in order to systematically assess the effects of the planned programmes to the environment. Specifically, SEA study outlines measures for mitigation of adverse environmental impacts in implementation of the planned interventions of the programmes. Nevertheless, a detailed analysis in the form of a project level environmental impact assessment will be required on a project level in order to specify other types of potential influences and list measures which will have to be taken for their avoidance. For all projects, applicants will be expected to prove that their project does not have a harmful environmental impact, and/or present how the project will make a positive contribution to sustainable development.

Apart from these main principles that will be respected horizontally, there are still many areas where the sustainability approach can be strengthened and improved. One of such areas is the renewable energy sources, which still do not have an appropriate share in the energy structure of Croatia. The potential for growth of renewable energy sources is significant and aligned with plans leading towards the EU Headline target of increasing the share of renewables in final energy consumption to 20% by 2020. More precisely this target is elaborated by the National RES Action Plan, followed by national sub targets including RES shares in electric energy consumption, transportation and heating and cooling. Achievement of these targets will be supported through ESIF interventions. Furthermore, the National Energy Efficiency Programme outlines sector-specific targets, which will contribute to achievement of the 20% energy saving target (to be contributed 34% by households, 19% by services, 17% by industries, and 30% by transport).

As for investments in the environment sector, climate change adaptation and sustainability of resources, planned activities reach far beyond direct environmental and climate benefits, providing a high, direct and indirect, potential for employment through creation of 'green jobs' and business development but also enable social integration and wellbeing through increasing the quality of life.

Mitigation of climate change and atmospheric pollution is an important aspect of the measures, which will improve the public transport systems in urban and suburban areas. Such projects will have to demonstrate a focus on minimizing consumption of primary energy sources and contribution to mitigation of climate change and atmospheric pollution. General focus of development of the transport sector is put on railways, which is one of the most environment friendly transport modes. Large infrastructure investments for extending broadband infrastructure would be executed in a way least harmful for the environment and nature.

Across other sectors, green growth will represent an additional selection criteria where appropriate, for instance in the investments in infrastructure for R&D and innovation where elements of green growth could be incorporated into the investment. Creative and cultural industries, as well as tourism that involves creative and cultural aspects of local development, will be assessed by taking into account the sustainability development criteria. The envisaged actions related to the social innovation projects will get additional qualitative points in case they largely contribute to the local community in place and respond to more than one societal challenge. The sustainability development principle will also be considered in operations related to self-employment and promotion of entrepreneurship, social entrepreneurship and education and lifelong learning where the promotion of the research and development sector is to demonstrate a direct link with sustainable development.

The sustainable development principle will be horizontally integrated into the ESI Funds programmes managing documentation (e.g. programme manuals, guidelines for applicants, etc.). Green public procurement on a national level will put an emphasis on the products and services that are not only best offer by price but also have in mind sustainability and green growth.

The fulfilment of the sustainable development principle will be monitored at the project level through monitoring reports, as well as through control of project implementation on the spot and subsequent evaluation of the contribution to the horizontal principles objectives. It is ensured throughout the whole programming period that relevant data on the progress on project level is collected and uploaded in the MIS and thus regular reporting is accurate and evidence-based. It is ensured throughout the whole programming period that relevant data on the progress on project level is collected and uploaded in the MIS and thus regular reporting is accurate and evidence-based.

In accordance with the partnership principle, relevant civil society organisations and NGOs, working in the area of sustainable development are involved in the preparation of programmes, and will be involved in the monitoring and evaluation of the PA and programmes through the Monitoring Committees.

The most important legal acts, strategies and programmes promoting sustainable development in Croatia are the following:

- Sustainable Development Strategy of the Republic of Croatia (Official Gazette, No. 30/09)
- National Environmental Protection Act (Official Gazette, No. 80/13)
- Strategy and Action Plan for the Protection of Biological and Landscape Diversity of the Republic of Croatia (Official Gazette, No.143/08)
- National Environmental Protection Strategy and National Environmental Action Plan
- Environmental Protection Programmes of counties and the City of Zagreb
- National Forestry Policy and Strategy
- Physical Planning Strategy of the Republic of Croatia
- Physical Planning Programme of the Republic of Croatia
- Croatia in the 21st century – Agriculture and Fisheries Strategy of the Republic of Croatia
- National Action Plan for Renewable Energy Sources by 2020
- Second National Energy Efficiency Action Plan of the Republic of Croatia until the end of 2013
- National Mine Action Strategy of the Republic of Croatia (Official Gazette, No. 120/2009)
- Strategic Plan of the Ministry of Interior and other institutions in order to protect and rescue 2014-2016
- Risk assessment of Croatian natural and technological disasters and major accidents (of March 2013)
- National Island Development Programme
- Plan and Programme for Health Care on the Islands

1.6

The list of the programmes under the ERDF, the ESF and the YEI, the Cohesion Fund, except those under the European territorial cooperation goal, and of the programmes of the EAFRD and the EMFF, with the respective indicative allocations by ESI Fund and by year (total Union support, including the performance reserve)

Programme title	ESI Fund (ERDF, ESF, Cohesion Fund, EAFRD, EMFF or YEI)	Total	2014	2015	2016	2017	2018	2019	2020
OP Competitiveness and Cohesion	ERDF	4,321,499,588	496,281,102	574,424,722	599,370,413	623,337,978	648,923,982	675,709,218	703,452,172
	Cohesion Fund	2,559,545,971	293,229,673	339,412,563	355,227,649	369,817,264	384,676,335	400,937,858	416,244,629
OP Efficient Human Resources	ESF	1,516,033,073	174,101,270	201,514,974	210,266,217	218,674,321	227,650,194	237,046,771	246,779,327
	YEI	66,177,144	37,178,171	28,998,973	0	0	0	0	0
Rural Development Programme	EAFRD	2,026,221,750 ⁴⁰	332,167,500	282,342,375	282,342,375	282,342,375	282,342,375	282,342,375	282,342,375
OP EMFF	EMFF								
	Total	10,489,477,526	1,332,957,716	1,426,693,607	1,447,206,654	1,494,171,938	1,543,592,886	1,596,036,222	1,648,818,503

⁴⁰ Financing of complementary national direct payments for Croatia according to Art 40 of Regulation (EU) No 1305/2013 of the European Parliament and of the Council is included

1.7

Request for transfer of Structural Funds⁴¹ allocations between categories of regions, where applicable

Category of region	Financial allocation based on Commission decision (...) (EUR)	Transfer to	Amount transferred (EUR)	Share of the allocation of the category of region from which funds are transferred (%)	Financial allocation after transfers (EUR)
Less developed regions		Transition regions			
		More developed regions			
Transition regions		Less developed regions			
		More developed regions			
More developed regions		Less developed regions			
		Transition regions			

1.8

Transfer from the European Territorial Cooperation goal to the Investment for Growth and Jobs goal, where applicable, by category of region

Transfer to	Amount transferred (EUR)
Less developed regions	-
Transition regions	-
More developed regions	-

1.9

Request for a transfer of technical assistance to the European Commission, where applicable⁴²

Fund	Category of region	Year	2014	2015	2016	2017	2018	2019	2020
-	-	-	-	-	-	-	-	-	-

⁴¹ ESF and ERDF

⁴² At the submission of the Partnership Agreement amounts should be included only for the first year. The following annual allocations are made, as appropriate, on annual basis and set out in the Partnership Agreement only upon approval of such a request from the Member State.

1.10 Information on the allocation related to the performance reserve, broken down by ESI Fund and, where appropriate, by category of region, and on the amounts excluded for the purpose of calculating the performance reserve⁴³

1.	2.	3.	4.	5.	6.	7.
Fund	Category of region ⁴⁴	Total Union support ⁴⁵ (EUR)	Amounts excluded for the purposes of the calculation of the performance reserve ⁴⁶		Union support subject to the performance reserve (EUR) ⁴⁷	Performance reserve ⁴⁸ (EUR)
			Matching ESF support to YEI (EUR)	CAP transfers ⁴⁹ (EUR)		
ERDF	More developed regions	-			-	-
	Transition regions	-			-	-
	Less developed regions	4,321,499,588			4,321,499,588	259,289,975
TOTAL ERDF					4,321,499,588	259,289,975
ESF ⁵⁰	More developed regions	-	-		-	-
	Transition regions	-	-		-	-
	Less developed regions	1,516,033,073	66,177,144		1,516,033,073	86,991,356
TOTAL ESF					1,516,033,073	86,991,356
EAFRD	N/A ⁵¹	2,026,221,750		0	2,026,221,750	121,573,305
CF	N/A	2,266,316,298			2,559,545,971	621.427.394
EMFF	N/A					
TOTAL (All Funds)					10,423,300,382	603,833,614

⁴³ Not required for the EMFF pursuant to Article 14 (5) CPR

⁴⁴ The special allocation for the northern sparsely populated regions and outermost regions should be reflected under the category of region to which the regions benefitting from the special allocation belong to.

⁴⁵ Including the performance reserve, after transfers between categories of regions and goals, where applicable.

⁴⁶ In accordance with Article 20 of the CPR. The other resources excluded under Article 20 are not included in the Partnership Agreement either because they are managed directly by the Commission or because they are transferred already at the establishment of the national allocations by the Commission (and hence are not included in these national allocations).

⁴⁷ Total Union support after transfers less the amounts excluded for the purposes of calculation the performance reserve.

⁴⁸ The total amount of the performance reserve allocated by ESI Fund and, where appropriate, by category of region, shall be 6%.

⁴⁹ Resources transferred from Pillar 1 of the Common Agricultural Policy to the EAFRD under Articles 7(2) and 14(1) of the Direct Payment Regulation (EU) No (1307/2013) and transfers to the EAFRD in application of Articles 10b, 136 and Art 136b of Council Regulation (EC) No 73/2009 in respect of calendar years 2013 and 2014 respectively.

⁵⁰ ESF allocation, including the matching support for the YEI.

⁵¹ There is no breakdown by category of region for the financial allocation from the EAFRD, Cohesion Fund or the EMFF.

2. ARRANGEMENTS TO ENSURE EFFECTIVE IMPLEMENTATION - ARTICLE 14(1)(B) CPR

2.1 The arrangements, in line with the institutional framework of the Member States, that ensure coordination between the ESI Funds and other Union and national funding instruments and with the EIB

2.1.1 Description of the arrangements to ensure coordination between ESI Funds and with other Union and relevant national funding instruments

Identification of areas of intervention where the ESI Funds will be used in a complementary manner

Europe 2020 Strategy has formulated the need of integration of all available financial resources with the purpose of achievement of common strategic targets. Different funding instruments such as structural funds, agricultural and rural development funds, the research framework programme, and the competitiveness and innovation framework programme and other shall be used in the coherent way, complementing to the same Thematic Objectives, selected by countries. Therefore it is expected that in the most of thematic objectives countries can use the financial support from most of Cohesion policy instruments, and also can benefit from various European initiatives and instruments. The logics of complementarity of different instruments raises the challenge of strong coordination of objectives, planning results and actions during the programming stage, and permanent communication, exchange of information and coordination of selection of operations to be financed from different instruments during implementation.

The complementarity of instruments, coordination of priorities and objectives, as well division of areas of intervention were discussed by the Croatian institutions, involved in the programming process. Generally, the following complementarity of actions to be financed from different ESI Funds, have been agreed:

Under the **Thematic Objective 1 and 3**, use of ERDF, EAFRD and EMFF is possible. The EAFRD and EMFF will complement the Thematic Objectives by supporting subsidies to and addressing the production of products covered by Annex 1 of the EU Treaty, aquaculture and fisheries production and diversification of economic activities, when exiting from agriculture and fishery activities to other economic activities. Complementary actions are possible in the area of setting up technology platforms to support aquaculture and mariculture development.

Under **Thematic Objectives 4 and 6**, the complementarity of ESI Funds will be ensured as follows: within the **Thematic Objective 4** the EAFRD will focus on EE and RES measures for the agricultural producers and food processing industry in addition to the generation of biomass from forestry. Beside demarcation of activities complementarity will be achieved by usage of the biomass generated from forestry for the production of RES under ERDF funds. The EMFF will support environmental and energy efficiency activities in fisheries, ports and aquaculture.

In terms of environmental communal services, addressed in **Thematic Objectives 6 and 9** (for EAFRD) the waste management measures will be financed under ERDF in order to ensure coherence of the waste streams lifecycle (from generation to final disposal) except for the waste management in sea that will be covered by EMFF, while the water services (water supply, sewerage and WW treatment) in agglomerations below 2,000 p.e. will be financed through EAFRD while those above 2,000 p.e. by ERDF. As regards nature protection, the EAFRD will be engaged for funding of measures on the agricultural land nature protection related to the agriculture land including compensation payments to farmers, while ERDF will focus on establishment and implementation of the Natura 2000 management framework and biodiversity measures on the non-agricultural land; In terms of touristic infrastructure in the protected areas ERDF will relate to the protected areas managed by the state / regional (county) authorities while the EAFRD will relate to the areas managed by the local (city/municipality) authorities. As regards usage of cultural heritage for tourism measures the demarcation will be based primarily on the type of beneficiaries, which are in case of EAFRD limited on the family agricultural households.

As for the overall water regime management the demarcation and complementarity will be ensured by EAFRD, within **Thematic Objective 5**, placing the priority on the irrigation measures, while the specific risk to be tackled under ERDF will be decided upon finalisation of the Risk assessment (end of 2015).

For **Thematic Objectives 8, 9 and 10** the complementarity will be achieved by providing EAFRD support for small-scale public service infrastructure in rural areas (up to 1,000,000 EUR investment), rehabilitation and conservation of existing cultural heritage and other buildings adapting them for community needs, with the potential to be used for provision of public services, financed from the ESF. EAFRD and EMFF will also support local action groups, which will contribute to the TO 8, 9, and 10 through community-based initiatives.

Identification of areas where the ESI Funds will be used in a complementary manner is shown in Table 21.

Table 21: Identification of areas where the ESI Funds will be used in a complementary manner

THEMATIC PRIORITY / ESI FUND	ERDF	ESF	CF	EAFRD	EMFF
1. Strengthening research, technological development and innovation	x			x	x
2. Enhancing access to, and use and quality of, information and communication technologies (ICT)	x				
3. Enhancing the competitiveness of SMEs, the agricultural sector and the fisheries and aquaculture sector	x			x	x
4. Supporting the shift towards a low-carbon economy in all sectors	x		x	x	x
5. Promoting climate change adaptation, risk prevention and management	x			x	
6. Protecting the environment and promoting the sustainable use of resources	x		x	x	x
7. Promoting sustainable transport and removing bottlenecks in key network infrastructures	x		x		
8. Promoting employment and supporting labour mobility		x		x	x
9. Promoting social inclusion and combating poverty	x	x		x	
10. Investing in education, skills and lifelong learning	x	x		x	
11. Enhancing institutional capacity and an efficient public administration	x	x			

Arrangements and structures to coordinate to support the complementary use of the ESI Funds and avoid duplication, including joint Monitoring Committees, common monitoring and evaluation arrangements etc.

In September 2012, the Croatian Government adopted a Decision on the establishment of the Coordination Committee for the preparation of programming documents for the financial period of the EU 2014-2020 and determining the responsibilities and tasks of the bodies involved in the work of the Coordination Committee designating MRDEUF as the body responsible for the overall coordination in preparation of strategic documents and operational programmes for the use of ESI funds 2014-2020. This role is planned to continue under the role of the **Coordinating Body (CB)**, Croatia intends to officially designate in line with Article 123 (8) of CPR. In addition to coordination of activities at the national level of other bodies designated in the management and control system for the use of ESI funds to ensure harmonised application of applicable EU and national legal acts, the role of the MRDEUF will continue to be the overall coordination and monitoring of the implementation of ESI Funds and other Union and relevant national funding instruments.

In January 2013, the Government adopted a Decision on establishment of Working Group for EU funds (WGEUF), chaired by the MRDEUF, composed of high level state officials representing institutions involved in the management of all funds in 2007-2013 period, and responsible for defining activities and measures to be undertaken for efficient, synchronized and coordinated implementation of EU financed interventions, namely through:

- Proposing legal and other solutions enabling the effective usage of EU funds to the Government
- Constantly monitoring and assessing the functioning of the Management and Control System (MCS) for the use of EU funds
- Constantly monitoring and assessing the preparation and implementation of EU funded projects, especially major projects
- Developing measures aimed for remedying administrative and other difficulties which prevent the efficient implementation of EU funded projects and achieving the highest possible EU funds absorption rate.

Although primary focuses of the WGEUF were programmes of the 2007-2013 period, the WG progressively expanded its scope to 2014-2020 period.

At the operational level, in December 2012, MRDEUF established a Working Group for Compliance Assessment (WGCA), composed of middle management officials representing institutions involved in the management of ERDF, ESF and CF programmes of the 2007-2013 period. The purpose of the WGCA was to prepare standardized set of rules and procedures (Common National Rules, CNR) for the MCS bodies and the beneficiaries in all ERDF, ESF and CF programmes, to steer the preparatory activities for the compliance assessment for 2007-2013 period as well as to discuss issues deriving from implementation and risk management, thus contributing to a certain extent to coordination of interventions.

Following the completion of the programming exercise, it is intended that the Committee (supported by the work of TWGs) is used as a permanent coordination mechanism in the form of **National Coordinating Committee (NCC)**, ensuring overall coordination and monitoring of implementation of ESI funds (mainstream operational programmes under the ERDF, ESF, CF, EMFF and EAFRD and cooperation programmes under the IPA and ERDF) and other Union and relevant national funding instruments. TWGs are intended to be used as support to the work of the Committee in increasing the impact and effectiveness of the funds through (a) ensuring demarcation on one hand and complementarity on other, (b) identification and preparation of projects, (c) matching identified projects to sources of financing (and different mechanisms of delivery of funds such as Financial Instruments, Community Led Local Development, Integrated Territorial Investments), (d) planning, steering and monitoring overall absorption of funds and (e) coordinating evaluation activities.

Taking into account that progressive establishment of different platforms for coordination and monitoring of implementation has resulted in overlapping of part of their activities on one hand while, due to involvement of representatives of mostly same institutions, reducing the effectiveness of their work on the other, for the purpose of further streamlining of coordination and monitoring activities, NCC supported by the TWGs and technical secretariat provided by the MRDEUF is

intended to progressively substitute (where necessary by undertaking/merging part of the resources of) other currently existing coordination and monitoring platforms.

While the NCC supported by TWGs is intended to include only the state officials, **Monitoring Committee of each programme (MC)** established under Article 47 of CPR, in addition to state officials (preferably respective state officials also participating in NCC) is intended to include also other stakeholders such as representatives of local and regional authorities, regional development agencies, chambers, associations, non-governmental organizations etc. To the extent required to ensure coordination between different (MC of different) programmes, it is intended that members of one MC also take part in MC of other programme.

An additional measure to ensure complementary use of funds as well as to avoid double co-financing of projects will be exchange of information and data within and between the computerised Management Information Systems (MIS). For more information on MIS and other linked systems please refer to Section 4.1.

[Mechanisms to help applicants and beneficiaries use the funds in a complementary way such as joint eGovernance solutions, "one stop shops" e.g. for advice on the opportunities of support available through each of the ESI Funds etc.](#)

To assist potential applicants/beneficiaries in the process of preparation of projects, it is intended to further upgrade existing **central web site** operated by the MRDEUF into 'one stop shop' for acquiring (a) information on funding opportunities under ESI funds, (b) information on applicable rules and procedures for ESI funded projects, (c) e-learning contents available on-line as well as information on other learning opportunities for ESI funds project management and (d) contacts of bodies responsible for further support to potential beneficiaries within particular policy area. To ensure multiple channels of access to same information, programme/investment priority related part of the content of the central web site will continue to be disseminated through web site of the respective programme operated by the Managing Authority and/or web site of the respective Intermediate body.

In addition to dissemination of above information through web sites and organization of other information and visibility activities (TV and radio broadcastings, information and visibility events etc.) as per information and visibility strategies and actions plans, it is intended to further upgrade the work of existing **Publicity Officers Network (PON)**. The purpose of the PON is to ensure coordinated and simultaneous dissemination of before mentioned information but also to provide first level technical support to potential beneficiaries. In order to ensure proper dissemination of information to particular groups of potential applicants/beneficiaries on regional/local level, PON is intended to include to larger extent the representatives of institutions appointed as regional coordinators, but also of other regionally placed intermediaries. Regional development agencies on the level of each county (so far acting as indispensable actor in connecting public, private and civil sector in strategic partnerships through EU financed interventions addressing regional and local development priorities in various policy areas, contributing to improvement of life standard in their respective geographical field of competence), are considered as the key intermediary in providing first hand assistance to potential applicants/beneficiaries in (a) identifying funding opportunities for them within the OPs, (b) developing project ideas and streamlining the development of their project proposals, and (c) implementing their operations. In addition to the regional development agencies, it is intended to progressively involve into the PON also the county offices of national chambers such as Croatian chamber of commerce, Croatian chamber of crafts and similar types of institutions. In addition to the possibility of using already existing facilities necessary for providing first hand assistance to potential applicants/beneficiaries, the benefit of such approach is mobilizing in larger extent the existing knowledge and expertise of the staff involved. However, in order to ensure high quality provision of an up-to-date support, it is intended that the members of the PON are continuously trained and, to the extent required, licensed by the CB.

In order to further promote and enhance electronic communication between the applicants/beneficiaries and the bodies of the MCS in line with e-cohesion requirements, thus to contribute to two-way exchange of information, it is planned to gradually upgrade the existing

central web site by adding interactive platform - **Beneficiaries Portal (BP)**. For more information please refer to Section 2.6.

Agronet is a web-based application for electronic and on-line submission of requests (for support/payment/changes of projects) by applicant/beneficiary under EAFRD and EMFF interventions. The application has automatic crosschecks of information provided by the beneficiaries, with available records maintained by PAAFRD and/or other public institution. There is a clear intention of including all eGovernance solutions by the time of their availability in order to reduce administrative burden for beneficiaries and decrease costs of administration.

One of main improvements in relation to the pre-accession period (i.e. implementation of SAPARD/IPARD), when documentation was submitted manually and processed in paper format, is that the documentation will be uploaded and processed directly in the system. The application will guide the applicants in completing the application/claim by a predefined process flow, which will assure more correct data input by the applicant and ease the process. This will save time and costs for administration, while reducing risks of failure and undue applications/requests submitted by beneficiaries. Agronet also provides other benefits to potential applicants/beneficiaries, such as an insight into the entire legal basis concerning particular support measures and insight into the current status of applications (e.g. submitted/pending/approved/rejected).

[Outlining coordination mechanisms set up at national and regional levels between the bodies responsible for the implementation of national and regional programmes, in particular under the cohesion policy's Investment for Growth and Jobs Goal, and those responsible for the implementation of the programmes under the European Territorial Cooperation \(ETC\) goal. Where appropriate, outlining coordination mechanisms to ensure complementarity with actions implemented in the context of macro-regional and sea-basin strategies.](#)

As described in Section 2.1, MRDEUF is intended to be designated as the CB, responsible for the overall coordination and monitoring of the implementation of ESI funded programmes. In addition, MRDEUF will be designated as the **Managing Authority (MA)** for the ERDF and Cohesion Fund programme under the Investment for Growth and Jobs Goal. Additionally, Sector for Territorial Cooperation (STC) in the MRDEUF is intended to become responsible for implementing all programmes under the European Territorial Cooperation (ETC) goal that the Republic of Croatia participates in. The STC will also bear the role of MA for 2014-2020 IPA cross-border programme Croatia – Serbia and for the programme Croatia – Bosnia and Herzegovina - Montenegro.

Close internal coordination mechanisms between the ESI mainstream and ESI ETC programmes is intended to be ensured through day-to-day work within MRDEUF as well as regular, weekly meetings of heads of sectors within the same. Coordination between other stakeholders involved in the implementation of different programmes is also intended to be ensured through the work of **National Committee for Coordination of Croatian Participation in Transnational and Interregional Programmes as well as Macro regional Strategies (NC)** of the EU, which has been established as one of the platforms for coordination and monitoring of implementation in the 2014 – 2020 period. For the purpose of further streamlining of coordination and monitoring activities, NC, representing stakeholders from public bodies, non-governmental organizations, social and economic partners and academic society, synergizing the political and operational dimension of Macro regional Strategies, is intended to be progressively merged with the NCC, as described in Section 2.1 above.

As for the cross-border cooperation programmes, all the relevant stakeholders are or will be involved in the monitoring committees directly. In the current period, Croatia introduced informal meetings of the Croatian members of the monitoring committees in order to align and consolidate national positions and opinions as well as to update members of potential new development in the policy areas. These meetings will be kept informal. With regards EUSAIR, which is under preparation, additional coordinative working groups are established in order to facilitate the process of preparation of the Strategy. The process is led by the MFEA and supported by the MRDEUF and other relevant line ministries. National Committee, in their capacity as an advisory body of the Government, was enrolled in preparation of Croatian position with regards all four priorities of

EUSAIR and was asked to confirm the priorities before submission to the government. Another form of coordination was introduced by involvement of MFEA within the task forces or working groups for preparation of the territorial cooperation programmes where possible. Furthermore, since the governance structure for macro regional strategies is still under development, without prejudice to the outcome, MFEA in their role as the NCP for macro regional strategies could/shall be involved in the monitoring committees of relevant transnational programmes.

There are certain areas of possible cooperation and coordination between ESI Funds with actions implemented in the context of other Union and relevant national funding instruments or in the context of macro-regional and sea-basin strategies. For Croatia this cooperation is relevant and eligible especially in the fields such as **transport, competitiveness (entrepreneurship), and environmental protection and restoration** (Table 22).

Table 22: Main areas of cooperation and coordination between ESI Funds and macro-regional strategies

Main areas of possible cooperation in accordance with Thematic Objectives	Relevant macro-regional strategy
<p><i>Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and fisheries and aquaculture sector (for the EMFF)</i></p> <p><i>Protecting the environment and promoting the sustainable use of resources</i></p> <p><i>Promoting sustainable transport and removing bottlenecks in key network infrastructures</i></p>	European Union Strategy for Danube Region (EUSDR)
<p><i>Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and fisheries and aquaculture sector (for the EMFF)</i></p> <p><i>Protecting the environment and promoting the sustainable use of resources</i></p>	European Union Strategy for the Adriatic and Ionian Region (EUSAIR)

European Union Strategy for Danube Region (EUSDR)

The entire territory of Croatia is included into Danube Region, which is the subject of the macro-regional European Union strategy for Danube Region (EUSDR), addressing the world's most international river basin development challenges. The Strategy seeks to create synergies and coordination between existing policies and initiatives taking place across the Danube Region. The EUSDR can contribute to the common EU objectives of the Europe 2020 Strategy, therefore the Cohesion policy funds are considered one of the major sources of financing of actions for implementation of EUSDR.

In the Region, there is a need to connect people, their ideas and needs. Transport interconnections should be modernised, and information access improved. Energy can be cheaper and more secure, thanks to better links and alternative sources. Development can be balanced with protection of the environment, within a sustainable development approach, in line with the environmental acquis communautaire as applicable. Work together is needed to minimise risks and disasters such as floods, droughts and industrial accidents. By building on considerable research and innovation perspectives, the Region can be at the forefront of EU trade and enterprise. Disparities in education and employment can be overcome. It can be made a safe and secure area, where conflict, marginalisation and crime are properly addressed.

Croatia is especially interested to ensure coordination and complementarity between ESI Funds and actions implemented in the context of EUSDR within the Priority Area 1A "To improve mobility and intermodality of inland waterways" which is coordinated by Austria and Romania.

The opportunities, defined for sustainable and coherent development of the Danube Region, as well as Croatian priorities in the context of EUSDR were analysed and taken into account when selecting the Thematic Objective and defining the Investment priorities. Further development of existing transport and trade links opportunity will be realised under Thematic Objective 7 *Promoting sustainable transport and removing bottlenecks in key network infrastructures*.

The investments from the EU Cohesion Policy funds will ensure sustainability of efforts Croatia already has been made, participating in implementation of projects and initiatives under the EUSDR, such as:

- Design environmental research
- The Danube Sturgeon Task Force
- Important networking platform for over 300 SMEs
- Scientific support to the Strategy
- Maintenance of the Danube waterway
- Branding the Danube Region

Table 23 shows areas of complementarity between ESI Funds and EUSDR.

Table 23: Areas of complementarity between ESI Funds and EUSDR

Cohesion Policy instruments	PILLARS AND FIELDS OF ACTIONS											
	(1) <i>Connecting the Danube Region</i>			(2) <i>Protecting the Environment in the Danube Region</i>			(3) <i>Building Prosperity in the Danube Region</i>			4) <i>Strengthening the Danube Region</i>		
	To improve mobility and multimodality		To encourage more sustainable energy	To promote culture and tourism, people to people contacts	To restore and maintain the quality of waters	To manage environmental risks	To preserve biodiversity, landscapes and the quality of air and soils	To develop the knowledge society through research, education and information technologies	To support the competitiveness of enterprises, including cluster development	To invest in people and skills	To step up institutional capacity and cooperation	To work together to promote security and tackle organised and serious crime
	Inland Waterways	Road, rail and air links										
ERDF												
ESF												
CF												

[European Union Strategy for the Adriatic and Ionian Region \(EUSAIR\)](#)

The European Union Strategy for the Adriatic and Ionian Region (EUSAIR), which is under preparation, will cover 4 EU countries (Greece, Italy and Slovenia, and Croatia) and 4 non-EU countries (Albania, Bosnia Herzegovina, Montenegro and Serbia). The general objective of the Strategy is to promote economic and social prosperity and growth in the region by improving its attractiveness, competitiveness and connectivity. The Strategy will also play an important role in promoting the EU integration of EU candidate countries.

In line with the conclusions of the Report on the evaluation of the macro-regional strategy concept (adopted in June 2013), the Strategy will have a limited focus on areas of mutual interest with high relevance for the Adriatic-Ionian countries. It will be built on four thematic pillars:

1. Driving innovative maritime and marine growth
2. Connecting the region (transport and energy)
3. Preserving, protecting and improving the quality of the environment
4. Increasing regional attractiveness (tourism).

The Croatian priorities in the context of EUSAIR which activities should be coordinated together with ESI Funds are integrated in all pillars of the strategy according to the conclusion of the National Committee and subsequently the Government.

Under Pillar I, Croatia identified following topics as most important and relevant:

1. Adapting to a resource efficient fisheries and boosting seafood production and consumption
2. Improvement of the business environment and strengthening of competitiveness of maritime industry through institutional and infrastructural support
3. Support to research and development and applied innovations in maritime industry and boosting blue research, innovation and skills
4. Investment in human resource development.

Under Pillar II, Croatia identified following topics as most important and relevant:

1. Systematic enhancement of transport infrastructure by reconstructing, upgrading or building of new infrastructure
2. Development of single market practice in transport sector
3. Competitiveness in the transport services market in line with EU regulations
4. Development of national system in order to support public/collective transport and increasing the attractiveness of public transport in all transport modules;
5. Improvement of administrative capacities
6. Implementation of public-private partnership in transport operations
7. Long-term planning of transport security programmes, especially in road transport
8. Project preparation and modelling of transport infrastructure to be financed by national / EU funds
9. Improvement of systems in border crossings.

Under Pillar III, Croatia identified following topics as most important and relevant:

1. Reducing anthropogenic eutrophication resulting from point and diffuse sources by investing in water sector (construction of wastewater treatment plants for domestic and industrial wastewaters and upgrading the sewerage network) and organic farming (agriculture) in coastal area
2. Biodiversity and the ecosystem services it provides are protected and restored by ensuring proper monitoring, information and management system for Natura 2000 and securing sustainable management of nature
3. Ensuring good environmental and ecological status of the marine and coastal environment by 2020 in line with relevant EU acquis and the Ecosystem Approach of the Barcelona Convention
4. Reducing the impact of marine litter on the environment through better waste management in coastal areas and cleaning programmes
5. Facilitating coordinated preservation and sustainable development of coastal zones in the region by ratifying and implementing the Integrated Coastal Zone Management (ICZM) Protocol of Barcelona Convention.

This pillar will focus on implementing cross-sector dialogue and initiatives aiming at improving the environmental quality of the regional ecosystems and preserving their biodiversity; protecting human health; prudent and rational utilisation of natural resources; ensure environmental integration within the strategy as well as implementation of tools for balanced management of marine resources and coastal areas.

The increased economic use of the marine and coastal space has intensified the pressures on marine and coastal environment as well as competition for space on one hand, while on the other there is a growing awareness of functional relationship between maritime, coastal and hinterland activities and important role of maritime economy for continental parts. In this context, coordination and harmonization of approaches related to ICZM.

ICZM and Marine Spatial Planning (MSP) need further elaboration in order to be efficiently implemented [154]. One of the growing challenges to sensitive and vulnerable marine ecosystem is

adaptation to climate change. Climate-proofed infrastructures and integration of climate mitigation issues can mainly be treated in this pillar. In April 2013, the EU Strategy on Adaptation to Climate Change has been adopted which encourages, among others, the development of macro-regional and local adaptation strategies based on risk and vulnerability assessment. A more effective and coordinated approach to the challenges of climate change should be facilitated within the EUSAIR.

Therefore, coordination and further development of the activities within this Pillar should be realised under Thematic Objective 6 - Preserving and protecting the environment and promoting resource efficiency.

Under Pillar IV, Croatia in collaboration with Albania coordinated the preparation for the overall Pillar report. Topics that are considered as priority are:

1. Finding solutions for joint financial, human resources and organisational problems more easily in the area of culture, tourism, environment protection, energy, transport and municipality infrastructure;
2. Development programmes planning and implementation get easier with the administrative aid of the EUSAIR networking of countries and their stakeholders on regional and local level;
3. Fostering cooperation in the areas of common interest (innovations and new tourism products development, enriching the tourism, cultural and gastronomic offer, fisheries, agriculture, etc.);
4. Getting the Region's tourism more attractive and competitive, more related to the natural and cultural attractions, its infrastructure getting upgraded with joint efforts
5. Joint market research and market follow up;
6. Joint branding and promotion of the Region in the third markets;
7. More efficient use of the EU funds - most successful tourism promotion projects so far financed within the territorial cooperation programmes may be extended through the implementation of this Strategy; a lot more demanding projects may get implemented by cooperation, acquire the funds more easily and reduce costs;
8. Potential for contributing to the exchange of ideas and experiences, partners search and joint conceptualization of activities;
9. Turnaround towards the "green" initiative, contributes to sustainable development and its promotion, natural and cultural resources preservation and protection, efficient use of resources;
10. Knowledge, ideas, human resources educational and scientific institutions, public, private and civil sector get united - the area gets recognizable in the world market through networking;

2.1.2 A description of the arrangements for coordination of the ESI Funds with other Union and national funding instruments and the EIB

Implementation of Union Programmes in Croatia

Implementation system for most of the EU programmes is centralized and managed by a responsible authority of the European Commission, i.e. the Directorate-General or delegated Executive Agency in charge of a specific program, who decide on the type and duration of the program, the budget available and publish tenders for the calls for proposals. In the case of a decentralized implementation of the Union Programme (Lifelong Learning Programme, Youth in Action), it was necessary to establish implementation structure at the national level. For that purposes the Croatia has established the Agency for Mobility and EU programmes, which performs the role of executive agencies for the particular programmes.

Financial control and audit is conducted or supervised by the EC, OLAF and the European Court of Auditors.

During the financial perspective 2007-2013 institutions responsible for implementing the Union Programmes in Croatia at the national level included:

- National IPA Coordinator (NIPAC), Assistant Minister, DSP, MRDEUF who is responsible for the overall coordination of EU funds, e.g. for the involvement of public administration bodies in the activities of each programme, monitoring of the Croatian participation in programmes by tracking final beneficiaries and for the programming of the IPA TAIB programme for the co-financing of the annual membership fees for the participation of the Croatia in the Union Programmes.
- National Fund (NF), established at the MoF, which is responsible for the financial payment of membership fees for the participation of Croatia in the Union Programmes.
- The national coordinators of the Union Programmes - assigned state administration bodies: Due to the centralized implementation system for the most of the Union Programmes, there has been a proven need for providing information and assistance, as well as the visibility activities performed at the national level focused on Croatian public and to potential beneficiaries interested in applying to the Union Programme tenders. Within the assigned state administration bodies operates technical support service for particular UP, more precisely a **National Contact Point** (NCPs). The NCPs provide personalised support, guidance, practical information and assistance on all aspects of participation in those programmes. This includes advice on technical and administrative questions concerning the calls for proposals, partner search, national priorities, and matching national co-financing possibilities, where applicable. The NCP systems in Croatia have different structures, from highly centralised to decentralised networks, and a number of very different actors, from ministries to research centres, and specialised agencies.

Information on the activities carried out through individual Union Programmes can be obtained from programme co-ordinators in state administration bodies co-ordinating the implementation of individual programmes in Croatia.

In 2008, the Government adopted a **Conclusion on Croatia's participation in EU Programmes**. The Conclusion of the Government regarding the participation in the Community Programmes (16 October 2008) refers to 14 Union Programmes for which Croatia signed a Memorandum of Understanding and stipulates conditions for the national institutions responsible for the implementation of actions arising from the agreements, as well as define state officials responsible for specific programs. It also specifies a list of the additional 10 programmes that Croatia could join in by concluding special agreements or by participation in transnational projects (participation of Croatian partners in projects with a leading partner from EU member state).

Since the first Governmental Conclusion, it has undergone numerous modifications due to changes in the institutional environment and considering the Croatian participation in additional Union Programmes.

In the financial perspective 2007-2013 Croatia participated in following Union Programmes and Agency: Fiscalis 2013, Customs 2013, Culture 2007-2013, MEDIA 2007, Seventh Framework Programme for Research, Technological Development and Demonstration Activities, Europe for Citizens, Progress 2007-2013, The Competitiveness and Innovation Framework Programme (CIP): EIP, IEE and ICT PSP components, Civil Protection Financial Instrument and Community Mechanism for Civil Protection, Second Programme of Community Action in the Field of Health 2008 – 2013, Marco Polo II, ISA Programme, Lifelong Learning Programme - LLP, Youth in Action, Tempus, Erasmus Mundus, Framework Programme Fundamental Rights and Justice: Civil Justice and Criminal Justice, and participation in Fundamental Rights Agency (FRA).

Since the European Parliament has adopted the legislative framework for some of the programmes, Croatia has started with its preparatory actions as necessary prerequisite for the use of the Union Programmes, such as creating of a NCPs network that will inherit part of the existing structure.

The areas of support where the ESI Funds funding will be used in a complementary manner with the Union's programmes as well as other Community instruments in the 2014-2020 period is shown in Table 24.

Table 24: Main areas of complementarity where other Union instruments will be used to complement support of the ESI Funds

Thematic objective / Community instrument	Horizon 2020	COSME	LIFE+	Eureka & Eurostars	Erasmus	Tempus	Marco Polo	Lifelong Learning Programme (LLP)	Leonardo Da Vinci	Comenius	EU programme for Employment and Social Innovation (EaSI)	Health for Growth Programme 2014-2020	Programme for Employment and Social Solidarity (Prossess)	European Employment Services (EURES)	EU Culture Programme 2014-2020	Creative Europe	Justice programme 2014-2020	Rights and Citizenship 2014 – 2020	Connecting Europe Facility (CEF)	Fund for European Aid to the Most Deprived	European Union Solidarity fund (EUSF)	EIB instruments	
1. Strengthening research, technological development and innovation																							
2. Enhancing access to, and use and quality of, information and communication technologies (ICT)																							
3. Enhancing the competitiveness of SMEs, the agricultural sector and the fisheries and aquaculture sector																							
4. Supporting the shift towards a low-carbon economy in all sectors																							
5. Promoting climate change adaptation, risk prevention and management																							
6. Protecting the environment and promoting the sustainable use of resources																							
7. Promoting sustainable transport and removing bottlenecks in key network infrastructures																							
8. Promoting employment and supporting labour mobility																							
9. Promoting social inclusion and combating poverty																							
10. Investing in education, skills and lifelong learning																							
11. Enhancing institutional capacity and an efficient public administration																							

EEA and Norway Grants

The EEA Grants and Norway Grants provide funding to 16 EU countries in central and southern Europe. There are 32 programme areas within different sectors ranging from environmental protection and climate change to civil society and research.

The financial contributions within the EEA Grants are available in the following priority sectors:

- Environmental protection and management
- Climate change and renewable energy
- Civil society
- Human and social development
- Protecting cultural heritage

The Priority sectors includes programme areas such as Integrated Marine and Inland Water Management, Biodiversity and Ecosystem Services, Environmental Monitoring and Integrated Planning and Control, Reduction of Hazardous Substance, Energy Efficiency, Renewable Energy, Maritime Sector, Environmental and Climate Change related Research and Technology, Funds for Non Governmental Organisations, Children and Youth at Risk, Local and Regional Initiatives to Reduce National Inequalities and to Promote Social Inclusion, Public Health Initiatives, Mainstreaming Gender Equality and Promoting Work Life Balance, Institutional Framework in the Asylum and Migration Sector, Scholarships, Conservation and Revitalisation of Cultural and Natural Heritage, Promotion of Diversity in Culture and Arts within European Cultural Heritage and Research within Priority Sectors.

The financial contributions within the Norway Grants are available in the following priority sectors:

- Carbon capture and storage
- Green industry innovation
- Research and scholarship
- Human and social development
- Justice and home affairs
- Promotion of decent work and tripartite dialogue

The Priority sectors includes programme areas such as Carbon Capture and Storage (CCS), Green Industry Innovation, Global Fund for Decent Work and Tripartite Dialogue, Bilateral Research Cooperation, Bilateral Scholarship Programme, Capacity-building and Institutional Cooperation between Beneficiary State and Norwegian Public Institutions, Local and Regional Authorities, Cross-border Cooperation, Health Initiatives, Mainstreaming Gender Equality and Promoting Work-Life Balance, Domestic and Gender-based Violence, Schengen Cooperation and Combating Cross-border and Organised Crime, including Trafficking and Itinerant Criminal Groups, Judicial Capacity-building and Cooperation and Correctional Services, including Non custodial Sanctions.

All countries have different needs and priorities. Each country agrees on a set of programmes with the donor countries based on needs, priorities and the scope for bilateral cooperation.

On 20 November 2013 agreement was reached on Croatia's entry to the European Economic Area (EEA), which made Croatia the 16th beneficiary country of the existing EEA and Norway Grants scheme for the period 2009-2014.

Accession to the EU and the European Economic Area offers an opportunity to strengthen the competitiveness of the country and increase cooperation.

Funding of EUR 9.6 million for Croatia from the EEA and Norway Grants are seeking to reduce economic and social disparities and strengthening bilateral ties between Croatia and the three donor countries, Iceland, Liechtenstein and Norway.

Memorandums of Understanding (MoU) are agreed and will be signed in April 2014. Specific funding areas are agreed. Within the EEA Grants Croatia will finance projects within Funds for Non-

Governmental Organisations and Local and Regional Initiatives to Reduce National Inequalities and to Promote Social inclusion programmes. Within the Norway Grants, Decent Work and Tripartite Dialogue, the NGO programme and Judicial Capacity-building and Cooperation will be financed.

Swiss Enlargement Contribution

The Enlargement Contribution is Switzerland's contribution to a secure, stable, prosperous and democratic European continent [155]. With the Enlargement Contribution funds, Switzerland is financing specific, high quality projects aimed at reducing the economic and social disparities in the new EU-Member States. In this way, Switzerland supports the EU objective of strengthening the economic and social cohesion (to be understood as internal cohesion), and it does so in its own particular way. The Swiss Enlargement Contribution fund supports projects within the following thematic domains and priorities:

- Security, stability, and support for reforms (Local Management Capacity, Measures for Securing Borders, Immigration and Asylum issues, Security and Security Law, Modernisation of the Judiciary, Combating Corruption and Crime, Nuclear Safety, Natural Disaster Management, Regional Development);
- Environment and infrastructure (Basic Infrastructure, Environmental Conditions, Toxic Waste Disposal, Planning of Land Use, Cross-border Initiatives, Biodiversity);
- Promotion of the private sector (Export Promotion for SME's, Management for SME's, Organic Agricultural Products, Improvement of Standards, Regulation of Financial Sector, Intellectual Property) and
- Human and social development (Public Administration Capacity, Vocational Training, Research and Development, Health, Twinning, Development Initiatives).

The projects are bilaterally agreed upon with each individual partner country, with Switzerland autonomously making the final decision on approval of the financing. In addition, the projects are closely monitored by Switzerland, for instance by way of its own contribution offices on the spot. As a rule, the partner countries finance at least 15% of the project costs on their own. Swiss Enlargement Contribution payments, amounting to a maximum 85% of the given project's overall cost, are staggered on the basis of the partner country's requests for reimbursement. With these requests, the partner country must submit certified expense vouchers and reports on project progress status.

Croatia became eligible for the funds of the Swiss Enlargement Contribution following accession to the EU. In order to reduce economic and social disparities in the enlarged EU, Switzerland intends to allocate CHF 45 million to fund various bilateral cooperation projects in Croatia. On 20 December 2012 the EC begin exploratory talks with Switzerland on a possible extension of the Enlargement Contribution to Croatia. On 8 March 2013 The Federal Council declares its intention to support Croatia with an independent contribution of CHF 45 million, and submits the bill to the Foreign Affairs Committees (FACs). The Swiss Parliament still needs to approve the financing framework credit.

Up to this point, Croatia has undertaken preliminary steps in order to raise the awareness of the public institutions about the opportunities arising from the Enlargement Contribution in the near future as well as to prepare the relevant institutions for their future tasks considering the financial and control management of the Swiss Enlargement Contribution funds.

EIB

In relation to coordination with EIB, Croatia intends to apply for the EIB loan in order to facilitate the implementation of ESI funds in period 2014-2020 (Structural Programme Loan, SPL). The loan would serve to co-finance projects that benefit from the ESI funds and to strengthen Croatia's competitiveness and increase its capacity to absorb EU funds. Large focus is intended to be put on areas such as transport, waste, water and environmental protection, research and development but also on other sectors with the absorption potential. Croatia has experience in implementing such facility, however, MoF, which was bearing a double role of borrower and promoter, coordinated the facility.

For the purpose of the new facility and primarily having in mind a need for strong coordination and ensuring complementarity between ESI fund and respective programme, MRDEUF as the CB is going to undertake the role of the promoter. Promoter's capacity is crucial for successful implementation of the facility and in case of Croatia is going to be crucial for absorbing ESI funds. Holding the role of Coordinating body and Managing Authority for a majority of ESI funds, MRDEUF is recognized as logical institutional solution for coordinating the potential future Structural Programme Loan. In such a way EIB will have two main partners (MFIN as the borrower and MRDEUF as Promoter), which will contribute to streamlining and focusing the activities on accomplishing the strategic goals as prescribed in the operational programmes.

In addition, MRDEUF already coordinates JASPERS support and by undertaking the role of SPL promoter the synergy with JASPERS, particularly concerning large transport, environment infrastructure and competitiveness infrastructure schemes, will be ensured. There will be a special unit within MRDEUF devoted to EIB and JASPERS activities, serving as the main focal point to EIB but at the same time to other Managing Authorities and public institutions to be proposing their projects for potential receiving of EIB co-financing. The unit will also have a strong link with the MFIN as the borrower, which link has already been established under the umbrella of the current EIB Facility.

Management of interventions under the CAP's 1st and 2nd pillars in order to maximise synergies

Programming of interventions under the 1st and 2nd CAP's pillars is under the Ministry of Agriculture responsibility. However, it is necessary to ensure coherence and complementarities between the two agricultural funds (EAGF and EAFRD). The first pillar measures are divided to annual direct payments for farmers and to common market organisation measures while second pillar concern Rural Development measures.

Acknowledging the wide diversity of agriculture, production potential and agri-climatic, environmental as well as socio-economic conditions and needs in Croatia, interventions under both pillars are aimed at meeting all three CAP objectives more effectively. Flexible programming and attention to synergies between two pillars, especially in the use and combination of different measures should better address the needs and opportunities in considered sectors.

Part of RDP measures (so called IACS measures) are closely related to direct payments under 1st pillar, and some of the RDP measures are complement to Common market organisation measures. Supports provided for the activities covered by the schemes for: school fruit, school milk, support programs in the wine sector and help in the beekeeping sector are not eligible for funding under the RDP measures, however, the possibility of financing beneficiaries from these sectors for the implementation of activities that are not covered by these support schemes and are provided by the RDP is not excluded. However, it has to be ensured that double funding is excluded, as well as to avoid the risk of overcompensation.

There is certain possibility of flexibility between the two CAP's pillars in form of re-allocation of funds from 1st pillar to 2nd pillar and vice-versa, in case of Croatia it can be up to 15%. Croatia has opted for flexibility between pillars in favour of the 1st pillar, **by reallocation of 15% from annual breakdown of Union support to rural development to national envelope for direct payments to farmers**. The total transfer of the amounts from rural development programming for the financial years 2014-2020 to direct payments ceilings for the calendar years 2014-2019 is EUR 298.9 million.

According to Accession Treaty, Croatia has additional possibility to complement national direct payments in period 2014-2016 and it is financially programmed under RDP. The total amount for CNDP is EUR 111,9 million for the period 2014-2016. Support may be granted to farmers eligible for complementary national direct payments under Article 19 of Regulation (EU) No 1307/2013.

Funds for financing payments of extremely sensitive sectors are provided solely from the national budget and as such are not considered to be an instrument of the Community and there is no risk of overlap with RDP.

One of the goals is to exclude possibility of double financing of same activity by ESI or other public funds. It has to be tackled in programming phase by responsible Ministry, while in implementation phase it is under responsibility of Paying Agency for Agriculture, Fishery and Rural Development (PAAFRD). It is an advantage that Croatia has a single implementing body for both CAP instruments (EAGF and EAFRD) and for CFP instrument (EMFF) under fully functional PAAFRD.

2.2 [The information required for ex ante verification of compliance with the rules on additionality \(Article 15 \(1\) \(b\) \(ii\) CPR, based on Article 95 and Annex X CPR\)](#)

At national level for Member States in which less developed regions cover at least 65% of the total population.

	2014	2015	2016	2017	2018	2019	2020
P51 – Gross fixed capital formation, as % of GDP	2.3	2.3	2.1	2.2	2.2	2.2	2.2

An explanation of the methodology that was used is provided in Appendix 5.

2.3 [A summary of the assessment of the fulfilment of applicable ex ante conditionalities in accordance with Article 17 and Annex \(xx\) at national level and of the actions to be taken, the responsible bodies, and the timetable for their implementation, where ex ante conditionalities are not fulfilled](#)

For all tables under this heading please refer to the separate PDF provided as Annex I to this document. Annex I (and all information provided therein) constitutes an integral part of this document.

2.4 [The methodology and mechanism to ensure consistency in the functioning of the performance framework in accordance with Article 19 of the CPR](#)

The performance framework milestones will be established for each priority, with the exception of priorities dedicated to technical assistance and programmes dedicated to financial instruments, for the year 2018 and targets established for 2023. Milestones and targets will be set based on the overall economic conditions in Croatia, as well as on the specific economic and development conditions in a given sector under a specific priority axes.

Milestones established for 2018 will include financial indicators, output indicators and, where appropriate, result indicators, closely linked to the supported policy interventions.

During the programming exercise the performance framework is set for each priority axis in cooperation with the relevant sectorial authorities. In the same cooperation manner, the indicators on the level of a particular specific objective will be set. The methodology for setting targets for achievement of indicators will also be coordinated with ex-ante evaluators, ensuring exchange of information between evaluators of all programmes under ESI Funds. As part of the ex-ante exercise, the ex-ante evaluators, whose recommendation will be taken into account by the CB, respective MAs, as well as TWGs, will qualitatively assess the indicators.

Key steps that will be taken in order to improve achievement of indicators, including setting up the performance framework, have been identified as follows;

- Improvement of the existing guidance documents on the preparation and use of indicators and performance framework; its preparation and implementation at the level of the OPs,
- Development of the guidelines on the utilization of the performance reserve in line with EU regulations, in a separate document in accordance with other national regulations,
- Conducting series of methodological workshops for representatives of the bodies in the MCS as well as other stakeholders participating in the programming process,
- Strengthening cooperation between ministries and improving administrative capacity of units dealing with monitoring, evaluation and financial management and control through trainings and enhanced structural reorganisation.

The performance framework, which will consist of selected financial, output and result indicators as well as key implementation steps for each priority, is intended to ensure early detection of potential problems in performance together with the follow-up system. As part of the current CNR that governs the use of ERDF, ESF and CF in 2007-2013 period, a set of rules has been developed, some of them closely linked to performance monitoring, e.g. Rule on strategic planning and programming, Rule on forecasting and monitoring of the programmes' physical and financial indicators and Rule on programme evaluation and closure. The CB will build upon these rules and develop, during the course of 2014, guidelines specifying milestones and targets for indicators to be achieved in the 2014-2020 period, main principles for defining their values and monitoring of their achievement as well as actions to be taken in case of underperformance.

The basic principles for determining the indicators and development of performance framework to be provided in these guidelines shall be applicable also to EAFRD and EMFF. The guidelines will also provide for monitoring of the ESI Funds' indicators and performance framework.

As part of the early detection of potential performance issues, also progress in reaching the indicators related to ESI Funds is planned to be summarized twice a year, using reports of the responsible institutions and, where applicable, MIS.

In order to ensure consistency in the functioning of the performance framework, the CB is to be closely involved in overseeing preparation of all the annual implementation reports, while all ESI Funds' competent authorities will be represented in the MCs. Annual implementation reports for OPs supported by the ESF, ERDF and CF will be closely coordinated with programmes supported under the EAFRD and EMFF.

As part of the system for follow up of detected issues, the progress in the achievement of set milestones and targets, as well as risks identified, will be the subject of the monitoring reports discussed at the level of the relevant MC and with the EC, but also at the level of NCC. Data collection and inputs for relevant reports and in general for monitoring performance framework will be supported by MIS which is intended to be further upgraded in line with the requirements of the CPR.

In addition, upon analysing the progress in reaching the indicators, MAs responsible for the implementation of programme are to inform the CB in cases of significant lagging behind in reaching the mid-term or final targets, as well as on any potential risks endangering achievement of set targets, at the same time proposing necessary measures for the improvement of the performance.

In order to ensure progress in the achievement of the set objectives, constant evaluation of efficiency and impact of implementation of programmes will take place. Evaluation strategy developed in 2012 by the CB will be reviewed based on the EC Guidance document on Monitoring and Evaluation for the programming period 2014-2020.

The CB will continue to be responsible for the overall management of the Evaluation Strategy in cooperation with MAs responsible for the management and implementation of programmes. These bodies will be responsible for commissioning and managing interim evaluations on the efficiency and impact of programme implementation as well as disseminating results to the respective MCs.

The inter-institutional Evaluation Working Group (EWG) which has been established in 2013 and chaired by the CB will continue to be the main forum for coordinating and discussing ESI Funds evaluation issues and will meet regularly to monitor the state of progress in achieving the objectives of the Strategy. Conclusions of the EWG will be presented to the MCs and NCC.

2.5 An assessment of whether there is a need to reinforce the administrative capacity of the authorities involved in the management and control of the programmes and, where appropriate, of the beneficiaries, as well as, where necessary, a summary of the actions to be taken for this purpose.

2.5.1 An assessment of the needs for the reinforcement of administrative capacity of the authorities and beneficiaries taking into account the experience from the previous programming period, including issues identified in evaluations or studies, or raised by the Commission

With regard to legal framework setting up the national institutional framework for the management of ERDF, ESF, CF, EAFRR and EFMF, it is intended that the Act on the Establishment of Institutional Framework for ESIF Management in the Republic of Croatia in 2014-2020 period is adopted (indicatively during the 3rd quarter of 2014), establishing (a) management and control systems at the level of each programme (17 of them in total for the two operational programmes), as per Article 72 of CPR; (b) Coordinating Body performing member state and other horizontal functions, overarching all OPs financed from all ESI funds, and (c) Independent Audit Body as per Article 124 of CPR. Based on the aforementioned Act, it is intended that the Croatian Government shall adopt implementing acts (Decrees, tentatively 5 of them, indicatively per fund and goal [156]) which are to elaborate rights and obligations stipulated in the Act, attributing specific MCS functions to concrete public (administration) bodies.

Structural design and designation of roles and responsibilities in the MCS for 2014-2020 financial perspective is built upon the management system established in previous programming period(s). The period of only six months of implementation of the SCF programmes under NSRF 2007-2013 does not provide sufficient information for experience-based analysis of the administrative capacity of the authorities and beneficiaries included in the EU funds implementation in Croatia. However, years of implementation of the Instrument for Pre-Accession Assistance (IPA) have formed the solid grounds for the management of EU funds in the programming period 2007-2013, thus the SCF MCS does not differ substantially, institution wise, from the IPA operating structures.

New thematic objectives and investment priorities introduced in the programming for 2014-2020 have set the basis for outlining the new MCS. Nevertheless, the intention remains to keep the structures as similar as possible to those in 2007-2013 period, including the delegation of specific functions to the same level of Intermediate Bodies (IBs), for the purpose of avoiding disarrangements and duplication of implementation system in a restricted timeframe of overlapping of two programming periods. This rather unchanged environment is intended to facilitate further enhancement of administrative capacities for the implementation of ESI Funds, as it will be constantly built upon the capacities disposing of expertise, facilitating the transfer of knowledge and EU funds management skills.

The intervention logic in setting up MCS established for 2007-2013 period relied significantly on institutional capacities build in the pre-accession period. Pre-accession implementing bodies (such as Central Finance and Contracting Agency, Agency for Vocational Education and Training and Adult Education, Croatian Employment Service, National Foundation for Civil Society Development) were assigned the role of Intermediate Bodies level 2 (IB2), since the scope of responsibilities of those IBs represented a natural continuity link with the scope of work of the same institution in management of pre-accession programmes.

The former bodies responsible for priority/measure in pre-accession period, were also by nature assigned the role of Intermediate Body level 1 (IB1), continuing to have a key role in performing sectoral analysis in their respective policy fields and defining areas of intervention to be co-financed through structural instruments. The only major modification introduced in the SCF management structures, compared against the MCS of the pre-accession programmes, relates to the broadening of the scope of responsibilities of Intermediate Bodies level 1: in the SCF MCS, line institutions have

become signatories of Grant Agreements, and have taken over the responsibility for the entire selection procedure, including the launching of the calls. This swerve was taken having in mind the ownership over policy interventions which resides with the very line institutions, in order to strengthen their role specifically in the assessment and decision making over compliance of project proposals with strategic priorities in their respective policy field, as well as in the monitoring of how the interventions selected contribute to purpose of the measures under which the financial support was awarded.

As for MAs, in the 2007-2013 SCF MCS, they continued to maintain the overall responsibility for the management of programme, leaning upon their former function of management pre-accession programmes as bodies responsible for operational programme. The only key modification in the SCF MCS compared to pre-accession period refers to the assignation of the role of the MA for Regional Competitiveness OP: MRDEUF took over the role from the Ministry of Economy, based on the change of competences introduced by the Act on Organization and Scope of the Ministries and other Central Government Bodies, entered into force on February 2012.

With regards to institutional structural design, in 2014-2020 period two MAs are to be established for the two programmes financed from ERDF, ESF and CF:

- MRDEUF for ERDF/CF programme (for the purpose of this document referred to as OP Competitiveness and Cohesion) and
- Ministry of Labour and Pension System (MLPS) for ESF programme (for the purpose of this document referred to as OP Efficient Human Resources).

Distribution of delegated functions in the 2014-2020 MCS is intended to remain predominantly in line with the one established in the 2007-2013 MCS, maintaining the two layers of IBs. Minor modifications in that respect are intended to be introduced with the aim to further enhance the efficiency of the system as a whole, and to accelerate the entire project management cycle, focusing on the reliance on the capacities concentrated in institutions (functions) that were being built over the past seven years. Project level control functions, however, are intended to remain with the IB₂, and the very number of those IBs is not expected to change significantly in comparison with the 2007-2013 MCS.

In relation to 2007-2013 MCS, the number of IB₁s in the institutional framework for 2014-2020 is intended to be increased from 7 to approximately 12 (of which at least 8 of them with the experience of funds management from 2007-2013 period), while the number of IB₂ is intended to be 8 in total (comprising institutions with the experience of funds management from 2007-2013 period, with the introduction of 1 institution without this particular experience).

Minor modifications will be introduced in the scope of functions delegated to IBs by MAs. In addition, modifications are planned to be introduced in the number and types of selection procedures, in order to avoid project implementation delays, namely by (a) reducing and/or eliminating certain steps of the current procedures of open and restricted calls and (b) developing new streamlined procedures tailor made for specific groups of projects (especially those projects which are a result of strategic pipeline and/or for which the obligations are undertaken at the level of the Member State or those projects for which the existing open or restricted call is not justifiable and necessary, for instance TA projects).

In the implementation, IB₂s are intended to remain main counterpart with regard to beneficiaries. IB₁s are to remain to be involved in monitoring the implementation at the programme level, especially through participation in MCs. As the monitoring at the level of projects is inevitably linked with the monitoring at the programme (policy) level, IB₁s are intended to have at their disposal several mechanisms: (a) all information regarding verifications and on-the-spots checks performed by the IB₂ are at their disposal through MIS; (b) before approving requests for payment from IB₂ and sending them to Paying Body, the relevant procedural step enables them to ask from the IB₂ any additional information they may consider required (including the possibility to perform by themselves the on-the-spot check with the beneficiary, if considered necessary).

The two-layer system, even though structure wise seemingly adds to the complexity of the MCS, is however, with the intended distribution of functions and tasks among the IB1s and IB2s, framed in a way to ensure efficiency and smooth delivery of programmes. Based on the experience gained through funds management in 2007-2013 and the pre-accession period, procedures and administrative information flows are progressively being simplified and upgraded with the aim to avoid bottlenecks at all implementation stages. The main reason behind the decision not to introduce distortions into the institutional framework for ESIF management, compared against the 2007-2013 system, rests on the intention not to create multiple (overlapping) MCSs during the years 2014-2016 (namely, IPA implementation system, the 2007-2013 SCF MCS and the 2014-2020 ESIF MCS), which would unavoidably create significant administrative burden not only to bodies of the MCS, but to beneficiaries as well. In the light of efforts to maintain the stability and consequently the functionality of the aforementioned implementation systems, it is intended to gradually introduce modifications to the system in the course of the present financial period, in case the real performance indicators of the ESIF MCS indicate such a need.

The above modification to the MCS results from lessons learned in 2007-2013 period, which demonstrated that the existing capacities of IB2s are the strongest in relation to the expertise demanded for pre-contracting and verifications during implementation, while at the same time there still persists a need for decrease and shortening of administrative procedures.

The decrease of number of programmes and, consequently, of MAs, compared against the 2007-2013 perspective is driven by the urge to have more centralised responsibility for ERDF, ESF and CF programmes. The system for 2014-2020 is designed in a way that it relies on beneficial consequences of centralisation of management in terms of accumulation and sustainability of expertise and experience of staff. The increase of IB1s on the other hand, having in mind the reduction of the scope of functions delegated to them, is not resulting in dispersed competences over (parts) of investment priorities, and is introduced with the aim to ensure strategic ownership over investments co-financed by SCF in a wide range of policy owners.

Designation of other horizontal functions, namely Audit Authority and Certifying Authority, is intended to remain unchanged. The Agency for the Audit of European Union Programmes Implementation System continues to act as the Audit Authority, while the functions of the Certifying Authority are being assigned to the Ministry of Finance. Tasks related to execution of payments and coordination of irregularities management, are being assigned to the same institution (respective organisational units of the Ministry of Finance, indicatively the State Treasury and the Service for Prevention of Irregularities and Frauds). The role of Independent Audit Body is indicatively to be assigned to either a separate organisational unit of the Audit Authority or a separate organisational unit of the CB.

The Directorate for Management of EU Funds for Rural Development, EU and International Co-operation within the Ministry of Agriculture (MoA) is recognized as single **Managing Authority (MA) responsible for the management and implementation of the RDP in Croatia**. The current structure of MA RDP is only a minor modification of the previous structure responsible for the IPARD programme. The MoA introduced re-organization in order to ensure more effective implementation. The internal organization of the IPARD Managing Authority was changed in a way that the Sector for Managing EU Funds for Rural Development now has an additional Service for Financial Management and Control of RDP implementation in order to achieve better utilisation of available funds, decrease potential misuse of funds and mitigate various risks related to implementation of RDP. The action was taken on the previous lessons learned during implementation of IPARD.

The **Paying Agency for Agriculture, Fisheries and Rural Development (PAAFRD)** is a public authority responsible for payments of expenditures from the agricultural funds acting as a single Paying Agency in Croatia. It was established by the Act on establishment of the Paying Agency for Agriculture, Fisheries and Rural Development [157]. Moreover, the responsibilities of the PAAFRD have been set by the Act on Agriculture [158] and Ordinance on Accreditation [159]. The PAAFRD has to ensure that compliance with Community rules has been checked before authorisation and execution of the payments. In order to properly fulfil its duties, a PAAFRD has to have an

administrative organisation and a system of internal control, which complies with the accreditation criteria what is under constant supervision of Competent Authority (CA), notably on the basis of the certificates and reports drawn up by the Certification Body.

The **Competent Authority (CA) for accreditation of the PAAFRD is MoA**. It is the body of the Member State, which has the powers to issue and withdraw accreditation of PAAFRD. These responsibilities within MoA are given to the Independent Service for Accreditation of the PAAFRD and Certification and Confirmation of the Implementation of Fisheries Aid Schemes. The CA decides on the accreditation of the PAAFRD on the basis of an examination of the fulfilment of the accreditation criteria carried out by an audit body, which is independent from the PAAFRD. Based on the findings of the examination, the CA shall instruct and monitor the PAAFRD to correct the significant deficiencies. After the accreditation is granted, the CA shall, through the Independent Service, supervise the work of the PAAFRD and its fulfilment of the accreditation criteria, and every three years has to inform the EC in writing of the results of its supervision.

The **Certification Body** for EAFRD (CB-EAFRD) is the Agency for the Audit of European Union Programmes Implementation System (ARPA) acting as public body with an independent budget. According to the Government's decision on institutional framework for utilisation of European funds for agriculture and rural development, ARPA is a legal entity responsible for audit of activities of the PAAFRD, including checking fulfilment of accreditation criteria and it is responsible to certify that invoices are true, complete and accurate taking into account established systems for management and control. The CB-EAFRD has pre-accession experience with SAPARD and IPARD programmes as well as with others pre-accession programmes. CB-EAFRD is responsible to assess the completeness, accuracy and veracity of the annual accounts of the PAAFRD, the proper functioning of its internal control system and the legality and regularity of the expenditure for which reimbursement has been requested from the EC.

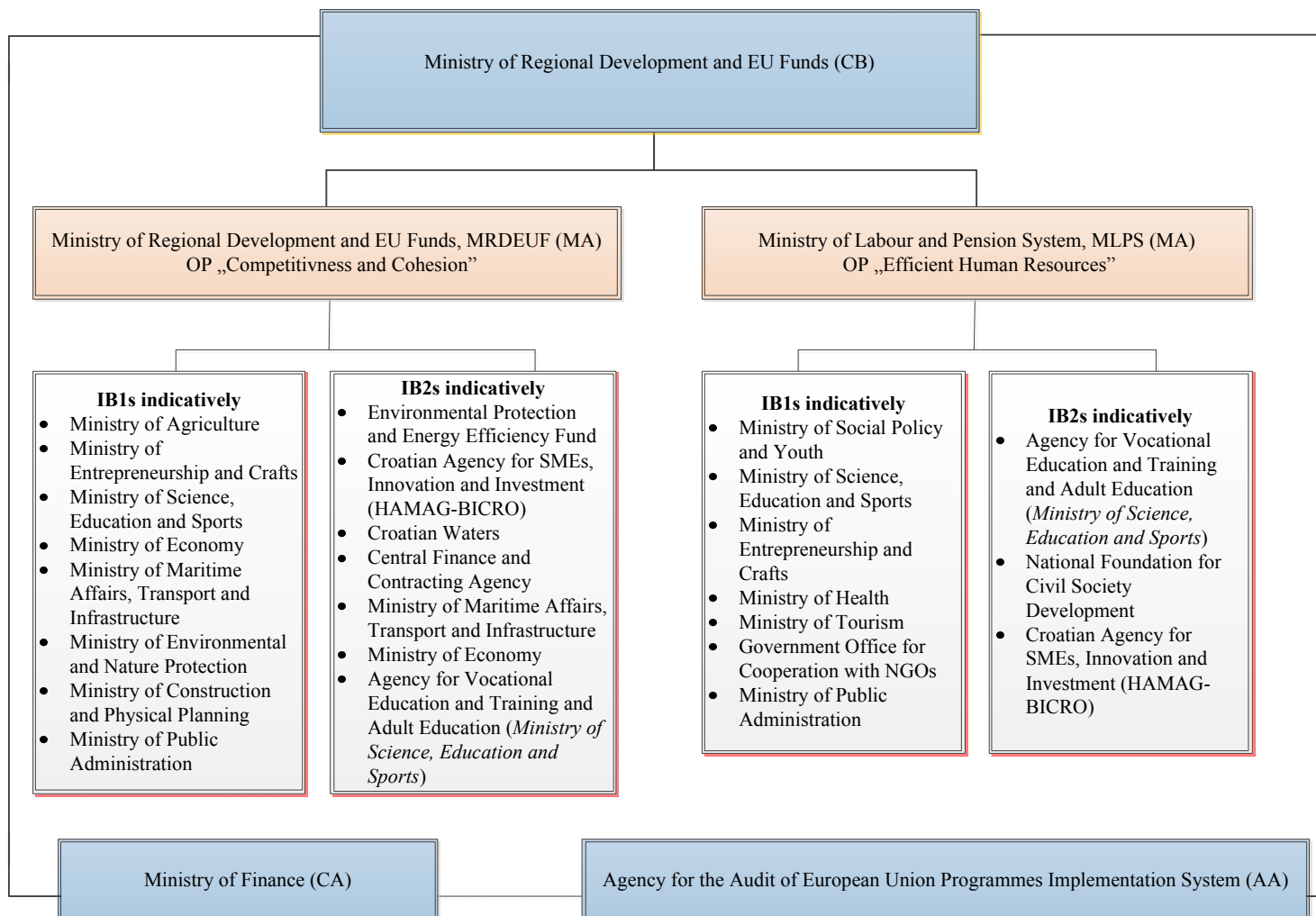


Figure 6. MCS for ERDF, ESF and CF programmes

With the decrease in number of MAs in 2014-2020 period, the intention is to have a more centralised model of ESI funds management in Croatia, and consequently special attention needs to be paid to the administrative capacities, especially of the MAs and IB2s. Although the necessity to strengthen the capacities of the bodies in the MCS is easily identified, the exact need for additional employment and/or reallocation of staff shall be based on the results of the strategic work-load analysis, to be performed by the end of 2014, following the planned approval of programmes and MCS for 2014-2020 period, taking into account overlapping of the 2007-2013 and 2014-2020 period.

In order to have a strategic, comprehensive and sufficiently detailed staffing and capacity development action plan, it is intended to implement the following measures, coordinated by the CB, (a) develop Detailed OP absorption plan (DOPAP) for the entire duration of its implementation, encompassing data on all allocations, planned projects and their implementation schedule, including the expected number of calls for proposals or other award procedures, estimated number of applications and contracts to be signed; (b) based on all data aggregated in DOPAP, develop Strategic Work Load Analysis (SWLA), covering the entire implementation period, per institution in the MCS; (c) based on results of the SWLA, comparing the needs with the baseline data [160] on staff engaged in the MCS, develop detailed staffing and capacity development plan for the entire implementation period, including training curricula and indication of planned TA support.

However, based on experience of monitoring the process of previous administrative capacity building, and the baseline data at the cut-off date 31 December 2013 which demonstrate that in total there are 1322 persons employed in institutions engaged in management of EU funds in 2007-2013 perspective, of which 557 work on ESF, ERDF, and CF programmes (while the rest of the staff is engaged in management of components I, II and V of Instrument for Precession Assistance – IPA), general estimations are as follows.

In the MCS for the OP Competitiveness and Cohesion, a minor increase of number of IBs (although with significant experience and expertise for project management) will take place. Due to its roles of the CB for all ESI Funds and MA roles for the ERDF/CF programme in 2014-2020 period, during the period of overlapping with the programmes from 2007-2013 period, staff of the MRDEUF is expected to experience significant increase of workload. The capacities of the MRDEUF are intended to be further enhanced at an early stage, having in mind the need for a greater level of supervision of delegated functions over the IBs, resulting from the consolidation of three ERDF/CF 2007-2013 OPs into one ERDF/CF 2014-2020 OP placed under the responsibility of MRDEUF, either through internal reorganisation by engaging internal staff who have not been involved in Funds management activities so far, through new employment and/or through possible internal transfer within the state administration, following decrease in workload under particular programmes. For the internal transfer within the state administration, it is intended to focus on the capacities for the supervision of delegated functions.

With regard to building of administrative capacities of MSC bodies in general, it is envisaged that the staff presently working on Transition Facility and IPA component I projects would, as those instruments will be approaching the closure, gradually be transferred to ESI funds management, in order to put in use that corpus of staff experienced in EU project management. In addition, having in mind that present national programmes managed by specific ministries with respective sectoral competences are to be progressively more and more linked with ESI funds co-financed interventions (in a way that what up to now was exclusively national programme should, in line with additionally principle, become national co-financing of a larger intervention under ESI funds), it is envisaged that a certain number of experts in presently national programmes would gradually be recruited in the management and control system, as they do dispose of sector-specific technical knowledge.

The estimation is that the MRDEUF shall, by the end of 2015, have in total at least 100 persons employed in positions related to management of EU funds – approximately 70 performing the role of MAs and approximately 30 performing the role of the CB – taking into account previously mentioned internal reorganisation (under point 504), to reflect the reduction of CB tasks and proportionate increase of MA tasks, as well as transfer of staff (from IPA activities, from other MCS institutions

which will face decrease of the workload due to changed role in 2014-2020 perspective, from congenial national programmes).

In the structure for the implementation of OP Competitiveness and Cohesion, managed by the MRDEUF, out of all IBs (approximately 13) at least 6 IB1s and 5 IB2s are continuing their engagement in MCS from previous financial perspective, while there are approximately 1 IB1 and 1 IB2, which are newly introduced. It is estimated that by the end of 2015 in total they will have at least 250 persons employed in positions related to management of EU funds.

Under the OP Efficient Human Resources it is planned that two institutions designated as IB2 in the MCS in the 2007-2013 period, shall fully (Agency for Vocational Education and Training and Adult Education) or partially (Croatian Employment Service) merge with the respective line ministries (the former with the Ministry of Science, Education and Sports and the latter with the MLPS, i.e. the MA). With this reorganisation resulting in the reduced number of IBs, MA shall to a certain extent limit the possible demand for additional capacities performing supervision of delegated functions during parallel implementation of programmes for different periods. However, one new IB2 is being introduced (Agency for SMEs, Innovation and Investment - HAMAG-BICRO), as well as 2 new institutions taking the role of IB1 (Ministry of Health, Ministry of Tourism).

Regarding the OP Efficient Human Resources, it is envisaged that by the end of 2016 all IBs in total have at least 100 persons employed in positions related to management of EU funds, while for the very managing authority this number is estimated at 80.

In the management and control structure for the implementation of RDP there to main roles: Managing Authority –MoA represented by Directorate for managing EU Fund for Rural Development, EU and International Cooperation and Paying Agency – PAAFRD. For the role of Managing authority 39 employee is envisaged out of which 26 is currently employed. For the role of Paying Agency in implementation of RDP currently are planned 174 employees dedicated to EAFRD related functions. However, PAAFRD has much bigger organizational structure currently employing 630 persons. Responsibility of PAAFRD includes implementation of different EU and nationally funded programmes as well as other tasks delegated by MoA and has flexible structure to respond on future needs according to workload.

As already identified during compliance assessment for 2007-2013, which was carried out in April-September 2013, capacities have to be enhanced in the Agency for the Audit of European Union Programmes Implementation System which is the Audit Authority in the management and control systems 2007-2013 and is intended to keep this role in the 2014-2020 period. All staff performing audits should obtain audit certificates and additional staff will be employed.

As one of the complementary measure to contribute to the overall efficiency of the MCS through decrease of the workload, it is intended to continue the use of **standardized procedures (business processes), tools and methods, where appropriate, supported by joint MIS**. The corpus of standardized business processes for ERDF, ESF and CF programmes is codified in Common National Rules (CNR), which have been established for 2007-2013 period, and are intended to be updated, upgraded and adjusted for the purpose of 2014-2020 MCS. CNR currently encompass 1 Rulebook and 15 Guidelines, covering business processes with accompanying forms related to eligibility of expenditure, risk management and improvement of the system, conditions for preparation and implementation of projects, forecasting and monitoring, audit trail, selection and contracting, verifications, payments, certification, recoveries, audits, irregularities, information and visibility, strategic planning, programming, evaluation and closure. Based on the adapted CNR, the bodies of the MCS are intended to adapt their own Manuals of procedures (MoPs) as internal tools for implementing business processes within their institution.

Standardization of business processes in the part of eligibility of expenditure and conditions for preparation and implementation of projects is expected to also contribute to increasing the competences of beneficiaries and, consequently, increasing the quality of the inputs from the

beneficiaries to the MCS, which will necessarily result with the decrease of workload on the side of MCS.

As a support to business processes, a joint MIS has been introduced for ERDF, ESF and CF programmes of the 2007-2013. The same MIS, progressively upgraded to fulfil the requirements of the CPR, is intended to be used for the programmes to be financed under the ERDF, ESF and CF in 2014-2020 period. For more information on MIS please refer to Section 4.1.

2.5.2 Summary of the main actions taken or envisaged to reinforce administrative capacity, outlining where technical assistance will be used

Besides internal restructuring of the internal organizational units of the Managing Authorities involved in ESI Funds management enabling better adaptation of the systems to the requirements of ESI Funds management, **measures for the staff capacity building** are envisaged. Based on knowledge and experience shared through former TA projects, a series of training modules, obligatory for all staff involved in EU funds management, is developed for 2007-2013 period. The latter shall be further extended to cover the novelties introduced either by the EU regulatory framework, such as result-oriented management, ITI or anti-fraud measures, or by the Member State, such as financial instruments which have not been used in Croatia in 2007-2013. Additional training for employees shall be organised to extend their knowledge in the specific fields, such as public procurement, state aid and environmental issues.

It is intended to continue with the implementation of trainings permanently in cycles, in two levels (basic and advance) of difficulty, and as such will be systematically licensable. The training modules are intended to cover all the specific fields prescribed by the adapted CNR. They are planned to be delivered by experienced staff from the MCS, and organised by the CB.

It is intended that it will be obligatory for all staff of the MCS to pass the basic-level licensing exam by the end of 2015. Periodically, all the staff are intended to be relicensed for expertise, renewing the licensing exam on a three years basis. This is the fundamental capacity building scheme for the staff entering the MCS, especially in the "new" IBs with no experience in EU funds management. This initiative is in line with the State Administration Reform initiative 2014-2016, which aims to establish unified classification and codification of working posts and accompanying job descriptions across the public service, to be harmonised with the public sector system. By the end of 2016, a new system of employment, education and licensing of civil servants is intended to be put in place, and in that context positions that concern MCS will be uniformly proscribed for requirements in terms of minimal standards regarding years of experience and qualifications.

In that context, as for retention of staff measures, in line with efforts invested into not only systematic prevention of loss of staff, but also in permanent stimulation of existing and future staff employed in management and control system, and in compliance with the benchmark No 6 for closure of Accession Negotiations in the Section 22 Regional Policy and Coordination of Structural Instruments, requesting the implementation of a strategy for career and salary planning of civil servants engaged in EU funds management, the intention is to continue with the same retention policy. This is to be achieved either through (existing) coefficients which distinguish for 30% the salaries of staff involved in the management of EU funds from those of other civil servants salaries, or through (to be potentially introduced) systematic performance management (efficiency appraisal and rewarding) in institutions/units of institutions participating in EU funds management.

In view of this challenge, the overall Public Administration Modernization Strategy, which is one of the ex-ante conditionalities, will be developed together with several more operational documents related to the crucial issues for the effective use of the ESI funds, like mentioned as ex-ante conditionalities: plans for equal treatment, gender equality, public procurement, state aid, environmental legislation, statistics, indicators, etc.

In addition to above mentioned, additional efforts shall be put in raising the share of staff with technical skills among newly employed staff in the MA and CA in order to meet this specific

requirement related to the internal control environment as one of the designation criteria for the MA and CA provided in the Annex XIII of the CPR.

In relation to obligation of MAs to put in place effective and proportionate antifraud measures, an assessment of the effectiveness of existing controls to mitigate the risks related to frauds will be carried by the end of 2014 out by the relevant body. The focus will be put on key processes, considered as those which are most exposed to specific risks related to fraud, namely: selection of projects, verifications in the implementation stage, payments and related certifications as well as public procurement. In order to ensure that relevant procedures are in place to detect frauds and to take appropriate measures once a suspected case of fraud is detected, after the risk assessment will be completed, anti-fraud measures will be defined to mitigate risks identified as not covered by existing control mechanisms. Having in mind the corruption risks priority area identified for Croatia in the EU Anti-Corruption Report [161], special efforts will be invested into further alignment of implementation of national legal acts regulating public procurement procedures with the Treaty principles. CB will be the holder of this specific measure, ensuring inter-sectorial linkage of all relevant actors as well as modifications of relevant national acts.

It is in the interest of the Member State to **support the potential beneficiaries** in their efforts to enhance the capacities for proper and successful implementation of ESI Funds, especially those beneficiaries implementing strategic projects. Therefore, trainings for beneficiaries are to be delivered providing additional knowledge and expertise on issues of importance for preparation and implementation of projects financed from ESI Funds. Trainings are intended to primarily focus on the areas of high risk for potential irregularities, such as public procurement and state aid, and on the new instruments, such as financial instruments or ITI, and will be generally delivered by the CB, where necessary, by using the PON structure defined in Section 2.1. Yet, in the context of individual calls for proposals under competences of specific IB, trainings shall be delivered by those IBs and respective costs will be covered from TA allocations.

The following activities are envisaged to be financed from **technical assistance**, aimed at reinforcement of administrative capacity of the bodies in the MCS and/or potential beneficiaries and/or relevant partners referred to in Article 5 of the CPR:

- Study, including assessment of the existing capacities and strategy for strengthening the administrative capacity of staff necessary for the effective implementation of the Funds (numbers, current and required skills, training needs, salaries). The study will be based on aforementioned DOPAP and related documents development exercise, and will serve as a basis for preparation of the official document, which would create a reference point for building monitoring system and the use of technical assistance;
- Based on the assessment, employment of additional staff in the bodies of the MCS, necessary for effective management of Funds;
- Support to the retention policy related to the current staff in the bodies of the MCS;
- Reinforcement of administrative capacity, including those of the beneficiaries, through a delivery of trainings (including on-the-job trainings) in the area of importance for the implementation of the OPs, such as preparation and implementation of projects, monitoring and reporting on project progress based on outputs and results, evaluations, public procurement, state aid, ITI, financial instruments, etc.;
- Further development of monitoring and evaluation capacities of MCS bodies through the use of external experts to both, outsource part of the tasks, as well as to coach internal staff for the purpose of progressive building of capacities internally;
- Strengthening of national and regional capacity regarding investment planning, needs assessment, preparation, design and implementation of financial instruments, joint action plans and major projects, including joint initiatives with the EIB;
- Support to management and implementation of the OPs 2014-2020 (financial management and control, irregularities, forecasting and monitoring, information and visibility etc.);
- Support for closure of the OPs 2007-2013;

- Further development and interconnection of the computerised system(s) for management, monitoring, audit, control and evaluation and for beneficiaries, as referred to in Section 2.1 above and Sections 2.6 and 4.1 below.

2.6 [A summary of the actions planned in the programmes, including an indicative timetable, to achieve a reduction in the administrative burden for beneficiaries](#)

Reduction in the administrative burden for beneficiaries is considered as one of the key prerequisites for efficient management of ESI Funds. The main measures intended to be continued/introduced for the beneficiaries of the OP Competitiveness and Cohesion and OP Efficient Human Resources are as follows:

- Use of centrally coordinated mechanisms of dissemination of information for beneficiaries as described in Section 2.1 above, enabling beneficiaries of different programmes to obtain all relevant information from one source, thus reducing resources necessary for that purpose. The activity is a continuation and upgrade of practice in 2007-2013 period and will be implemented continuously;
- Use and further simplification of common procedures (business processes), tools and methodologies (especially rules on eligibility of expenditure and rules on conditions for the preparation and implementation of projects), standardized at the level of CNR and enabling beneficiaries of different programmes to (a) prepare significant part of the project application in advance even before the call is published (reducing the time needed for the preparation of application to the adjustment of application to call specific requirements), (b) avoid a need for significant changes to the project in case the same is applied under other programme, (c) build the capacities for the implementation of the project in advance and (d) reduce the resources required for administrative implementation of the project, focusing more on the content of the project itself. The activity is a continuation and upgrade of practice in 2007-2013 period and will be implemented continuously;
- Introduction of more new diversified and simplified procedures for application and selection of projects (as described under Section 2.5.1 above), enabling the selection of projects to be completed in shorter timeframe and with optimal use of resources on both, the side of the MCS and the beneficiary. Respective procedures are intended to be prepared by the end of 2014;
- Introduction of the simplified cost options, enabling the process of verification and reimbursement of funds to be completed in shorter timeframe and with optimal use of resources on both, the side of the MCS and the beneficiary. Respective procedures, tools and methodologies are intended to be prepared by the end of 2014;
- Introduction of the BP, new features of the MIS as well as other electronic systems to (a) allow that information by the beneficiaries is provided in electronic form and submitted only once (once encoding principle), (b) reduce the overall number of information and supporting documents required by the beneficiaries, which the MCS can obtain and validate on its own, and (c) reduce the efforts by the beneficiaries in repeated submission of information and supporting documents in case the same beneficiary submits more applications for different projects under different programmes. These activities are to be performed continuously to reduce the necessary resources on both, the side of the MCS and the beneficiary, and to reduce the number of errors. Phases of the progressive reduction of administrative burden by introduction of the BP, new features of the MIS as well as other electronic systems will be defined and implemented in line with the e-cohesion requirements of the CPR and respective implementing rules. For more details on the use of electronic systems please refer to Section 4.1 below.

Detailed proposals for the implementation of each of the before mentioned measures as well as the content of particular procedures are intended to be defined through the work of expert groups (similar to WGCA as explained in Section 2.1) coordinated by the CB/MAs. In developing procedures, it is intended that expert groups use the procedures developed for the implementation of the 2007-2013 OPs, assess the real statistical data on the duration of specific procedures, workload required on the side of both the MCS as well as the beneficiaries and problems encountered during the

implementation of projects under 2007-2013 OPs. It is intended that the assessment include a comparison of achieved results against the planned results (respective assumptions and baseline data used at the time the procedures for the 2007-2013 have been established) under each implemented procedure, in order to define the level of required changes. Inputs from the beneficiaries recorded through the informative workshops as well as common questions raised by the beneficiaries within call for proposals under 2007-2013 OPs will be assessed in order to identify additional weaknesses of the procedures. Interviews with beneficiaries related to their view of the procedures are to be used as a complementary measure.

Apart from afore mentioned measures, based on permanent risk management in the management and control system, specific features of procedures and requirements shall be constantly improved, based on lessons to be learned over time. The legal framework is designed in a way to enable prompt and simple modification of prescribed provisions, as well as combining in an optimal way the compulsory set of procedures and templates (CNR) with the arbitrary designed steps of procedures adapted to the specific group of beneficiaries.

3. DESCRIPTION OF THE INTEGRATED APPROACH TO TERRITORIAL DEVELOPMENT SUPPORTED BY THE ESI FUNDS OR A SUMMARY OF THE INTEGRATED APPROACHES TO TERRITORIAL DEVELOPMENT BASED ON THE CONTENT OF THE PROGRAMMES (ARTICLE 14(2)(A) CPR)

3.1 The arrangements to ensure an integrated approach to the use of the ESI Funds for the territorial development of specific sub-regional areas (Article 14 (2) (i) CPR)

As described in the analysis of disparities, development needs and growth potentials in Section 1.1., the diversity of the Croatian territory in terms of natural characteristics and development levels is significant and requires special attention. The Croatian legislative and strategic framework for regional and territorial development recognised several types of areas facing different development challenges, which need to be addressed with appropriate measures (island, hilly-mountainous areas, war-torn areas and assisted areas). The most of generic indicators related to social and economic development and challenges are encapsulated in development index (as explained under the heading *Specific territorial challenges*). Reducing regional disparities and ensuring quality living conditions is also defined as one of the three main national development goals.

An integrated approach will be applied to ensure the highest possible contribution of ESI Funds towards meeting the goals of the Europe 2020 Strategy. Channelling of funds must be efficient, respond to the actual needs of the territories and contribute to the development potential of the territories concerned.

The strategy for integrated territorial development using the ESI Funds will be based on two main objectives:

- **Promotion of a more balanced territorial development**
- **Use of comparative advantages of different territories** to increase the prospects of growth and employment and assure adequate standards of living

Based on these objectives, two types of territorial approaches will be used with the contribution of ESI Funds in Croatia:

- "Horizontal approaches" which encompass actions applicable to the whole territory, with certain adjustments that will depend on the location of implemented (horizontal) measures
- Territorial concentration of funds for certain specific territories that require an integrated approach, based on their characteristics, functions and development potential in order to focus investments from the ESI Funds on addressing specific territorial problems and opportunities.

The "horizontal approach" towards territorial development supported by ESI Funds will rely on the existing legal and strategic framework for regional development in Croatia. According to the development index, regional and local units are classified taking into account basic socio-economic indicators. In order to ensure equal opportunity for the units with a lower development index, during selection and implementation of projects, certain advantages are foreseen, such as targeted calls for projects, selection criteria (additional scoring 'points'), modulation of support (lower co-financing contributions required from local beneficiaries), etc.

In order to insure that funds are used efficiently, compliance of projects with integrated territorial strategies will be requested. Territorial strategies play an important role in recognising the needs and potentials through bottom-up approach. The relevant strategic documents obligatory by the current Law on Regional Development are the County Development Strategies prepared by the regional self-government units according to the unified national methodology. Experience of Croatian counties in development of integrated multi-sectoral strategic documents is considered as an important asset for the period 2014-2020 [162].

The "horizontal approach" should be particularly relevant for measures necessary for acceleration of economic development, such as **job creation and formation of new businesses** (link with the Thematic objective *Enhancing the competitiveness of small- and medium-sized enterprises, the*

*agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF)), and further development of **basic communal infrastructure and services** (i.e. as enabling access to the social, health and education services in underserved and less developed areas, link with Thematic objectives *Promoting employment and supporting labour mobility, Promoting social inclusion and combating poverty* and *Investing in education, skills and lifelong learning*).*

Territories proposed to be supported through territorial concentration of funds and integrated approach, include **urban areas** (integrated investments in the largest urban centres in Croatia are proposed to be implemented using the Integrated territorial investments mechanism, see under the heading *Integrated Territorial Investments*) and **areas most affected by poverty** (described under the heading *An integrated approach to address specific needs of geographical areas most affected by poverty...*) [163].

The CLLD mechanism will be used to address **challenges at the local level in rural areas** in a manner known so far under the LEADER approach [164]. The local level typically has a wide variety of needs and challenges, and the approaches to solving those vary. Measures have direct impact on the territory concerned, however the local community must have the necessary organisational, and technical and financial capacities to carry out projects (described under the heading *Community-led local development*).

3.1.1 Community-led local development (Articles 28-31 CPR, Article 9 ETC, and the EAFRD, ESF, EMFF and ERDF regulations)

The process of territorial development involving local stakeholders in Croatia started in 2013 by implementation of LEADER in rural areas through establishment of the Local Action Groups (LAGs) under the Pre-accession Programme for Rural Development (IPARD). This experience indicates that the involvement of local citizens and stakeholders in policy-making is still very new and the capacity level of human resources at the local level is low.

The CLLD mechanism will be continued in Croatia in the 2014-2020 period through the LEADER approach supported by EAFRD (under the RDP), as well as through establishment of FLAGS supported by EMFF. It will be based on coherent territory, local identity and partnership at the local level between public, private (economic) and the civil sector. For fisheries, a synergy with other important economic sectors such as tourism and agriculture can easily be established and maintained by way of creating the FLAG-s, which would ensure a diversification of activities and contribute to maintaining the local population on islands. In addition, FLAGS are considered as a good platform for cooperation and communication in the fisheries sector both, whiting the borders and outside. Croatia will use a mono-fund CLLD-approach (i.e. one local development strategy for one fund) but it will not be an obstacle to connect the local development initiatives in fisheries planning with local development initiatives in rural development, thus utilizing their previous experience in the LEADER approach and creating the core in the form of existing local action groups recognized according to criteria used in the recognition of LAGs.

At present, it is not intended to implement CLLD through ERDF and ESF. However strategies and project selection systems for these Funds will promote complementarity and synergy with LEADER CLLD interventions, where appropriate.

The main challenges at local level are mostly related to social and economic underdevelopment (e.g. underdeveloped local economy, high unemployment, insufficient qualification and skills of workers, etc.), absence and/or insufficiently developed local (basic) infrastructure and services in rural areas and generally low quality of life.

The main objectives of the implementation of the LEADER in new programming period (i.e. the main priority areas addressed through CLLD approach) are promotion of social inclusion, reduction of poverty and fostering the economic development in the rural areas (therefore linked to the Thematic objective *Promoting social inclusion and combating poverty*). Additionally, the focus will be on

innovations, environmental and climate change as horizontal/cross-cutting Union objectives for 2014–2020 programming period, contributing therefore to goals of thematic objectives *Strengthening research, technological development and innovation, Enhancing the competitiveness of small and medium- sized enterprises (SMEs) and Protecting the environment and promoting the sustainable use of resources.*

CLLD-eligible area is the LAG territory. LAG has to cover territories with a critical mass above 10,000 but below 150,000 inhabitants, within which each individual settlement cannot exceed 25,000 inhabitants. In the Croatian context, these are rural areas, as defined in the RDP, as eligible for establishment of LAGs, or for continuation of activities of already established LAGs. Also, LAG has to cover clearly defined and coherent territory and create a **local development strategy**, Local development strategies will be selected by an Evaluation Committee established by the MA for RDP (MoA).

The indicative financial allocation for implementation of CLLD through EAFRD is set at 2.5% of total budget for Rural Development Programme 2014–2020. The financial allocation for FLAGs supported through EMFF will be defined at a later stage.

The main authority responsible for CLLD preparation and implementation at the national level will be the MoA in its capacity as Managing Authority for the RDP 2014-2020, The MA for RDP will define the legal framework, including selection criteria, and will be responsible for monitoring and evaluation of implementation CLLD. The PAAFRD will be responsible for announcing the public calls for LAG selection, administrative and on the spot controls of the applications, contracting and payments.

The main tasks of LAGs include preparation and implementation of local development strategy, LAG administrative activities, collection of information for monitoring and evaluation, publicity and information on the area concerned and on results of the strategy, networking and cooperation with other LAGs.

3.1.2 Integrated territorial investments (ITI)

The **sustainable urban development** concept, as defined by Article 7.2 of Regulation (EC) No 1301/2013 [165] will be implemented in Croatia exclusively through the Integrated Territorial Investment (ITI) mechanism. ITIs will be implemented in largest urban centres in Croatia with concentration of needs and capacities to implement projects under this mechanism. Final decision on ITIs to be implemented in Croatia will be based on competition between urban centres leading to selection of approximately 4 individual ITIs.

Largest urban centres form the polycentric backbone of Croatian economic life. They share a lot of common features, face similar development barriers and opportunities; however they encounter also specific territorial problems as described under the heading *Specific Territorial Challenges* (subheading *Urban development*).

The **main reasons** to use the ITI mechanism in urban areas are:

- Concentration of economic, environmental, climate, demographic and social challenges affecting urban areas which can be faced more efficiently with active cooperation between local authorities and partners and between them and central government,
- Socio-economic potential which can be best exploited through improved coordination and partnership and integration of development interventions at territorial level,
- Greater availability of institutional capacity to deal with complex development challenges and realization of potentials.

The implementation of the ITIs will be based on integrated territorial development strategies (i.e Sustainable Urban Development Strategies) prepared for the territory concerned and agreed by all participating local authorities.

Each of the ITIs will be co-financed by ERDF through an integrated set of actions belonging to different priority axes of the Operational Programme Competitiveness and Cohesion, and additionally by actions co-financed by ESF under the Operational Programme Efficient Human Resources. Additional actions falling outside the scope of the ITIs will also be implemented in cities and complement the operation under the ITIs (for e.g. larger transport projects prepared at national level funded from the Cohesion Fund, including the development of connection with sub-urban and rural surroundings).

The general goal of establishing ITIs in Croatia is to promote sustainable urban development in the largest urban centres in Croatia through enhanced cooperation between local authorities (authorities of relevant towns and rural communities as well as counties), partnership with development stakeholders (including the government, business support and training providers, academic institutions and NGOs) and realization of integrated locally-determined development investments to tackle the economic, environmental, climate, demographic and social challenges affecting urban areas, while taking into account the need to promote urban-rural linkages.

The application of the ITI mechanism in Croatia is expected to result in increased effectiveness in the use of the ESI Funds, enabled realization of territory-based integrated actions/projects responding to complex development problems and more efficient exploitation of the specific potential of the territories concerned. ITIs will also enhance cooperation and partnerships among local partners and between local and government institutions, development of administrative capacity and strengthening the role of local authorities in conducting and implementation of the ESI Funds. The specific results for each of the ITIs will be formulated in the relevant integrated sustainable urban development strategies.

The thematic scope and a concrete set of integrated actions of each of the ITIs will vary depending on the analysis and objectives formulated in the integrated sustainable urban development strategies. Potential thematic areas covered by the ITIs are given in Table 25.

The detailed scope of tasks to be performed by each of the ITIs will be determined by the Managing Authority (MA) in charge of the OP Competitiveness and Cohesion (also referred to as the **ITI Lead Ministry**) and in consultation with the Urban Authority representing the ITI. The following general rules will be applied:

- The Urban Authority representing the ITI (Urban Authority) and local partners will be responsible for preparation of Sustainable Urban Development Strategies according to guidelines prepared by the ITI Lead Ministry.
- Sustainable Urban Development Strategies will be verified by the ITI Lead Ministry.
- The Urban Authority and local partners will be given the right to select operations/projects in the areas covered by the ITI, consistent with the agreed Sustainable Urban Development Strategy.
- Coordination of ERDF and ESF activities will be ensured by the ITI Lead Ministry, possibly through a multi-sectoral ITI supervising body.
- Participation of local authorities and partners in the ITI should be confirmed by a written agreement between them.
- The ITI Lead Ministry will be responsible for verifying the eligibility of operations/projects and their coherence with national policies.

To facilitate the process of establishment of ITIs and their implementation, support will be provided to the cities for preparation and implementation of integrated sustainable urban development strategies. Approval of integrated urban development strategies is expected in the second half of 2015.

Table 25: Thematic areas covered by ITIs

Thematic scope of ITIs	Rationale and description of possible actions	Contributing ESI Fund(s) and thematic
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		objective(s)
<p>Cities as drivers of sustainable and smart economic growth (<i>progressive cities</i>)</p>	<p>Prospects of increasing competitiveness of the Croatian economy in territorial terms very much depend on proper use of existing potential and further development of largest urban centres in order to accelerate creation of new jobs and to act as leaders in promoting innovative solutions for existing challenges.</p> <p>The ESI fund support will help in implementation of actions which fall under several important categories: (i) Cities aiming to provide business support to enterprises, create new jobs, develop know-how and enable economic growth (<i>for e.g. development of business support institutions in order to provide adequate service for existing and new enterprises</i>), (ii) Cities joining forces with existing research and innovation facilities and business sector in developing innovative solutions for social challenges of special importance for the cities (<i>e.g. collaborative projects of local authorities, research and business sectors related to social innovations</i>), and (iii) Cities becoming active participants in designing and implementation of educational programmes related to efficient urban development and management (<i>e.g. development of programmes for lifelong learning for local servants.</i>)</p>	<p><i>Strengthening research, technological development and innovation,</i> ERDF</p> <p><i>Enhancing the competitiveness of small and medium-sized enterprises (SMEs),</i> ERDF</p> <p><i>Investing in skills, education and lifelong learning,</i> ESF</p>
<p>Fighting climate change, promoting energy efficiency and healthy environment (<i>clean cities</i>)</p>	<p>The overall aim in this field is protection, improvement and efficient use of the urban environment so as to improve the quality of life, safeguard human health and protect local and global eco-systems. Reducing the total environmental impact (or "ecological footprint") of urban activities will lead to improvements both within urban areas and elsewhere.</p> <p>Given the significant energy use in urban areas, and all the associated environmental issues, it is important to promote sustainable energy management. Cities as major consumers of the energy can contribute substantially to achievement of all goals related to improvement of the energy efficiency and shift towards less CO₂ producing economy.</p> <p>Under this set of actions, promotion of higher energy efficiency, energy savings and more intensive use of renewable energy sources will be supported. These encompass smaller investments designed by the cities that will complement those envisaged on the national level. In addition, smaller scale urban transport projects, especially ones related to low or zero carbon transport solution, financed from ERDF and complementing those on the national level, will be implemented under the ITI. Large-scale transport infrastructure projects will remain <u>outside</u> the scope of ITIs due to their complexity, duration and high investments cost.</p> <p>Promoting efficiency and healthy environment will also include protection and promotion of existing cultural heritage and rehabilitation of environmentally degraded</p>	<p><i>Supporting the shift towards a low-carbon economy in all sectors,</i> ERDF</p> <p><i>Protecting the environment and promoting the sustainable use of resources,</i> ERDF</p>

	areas and economic re-use of brownfields (industrial and military), possibly accompanied by smaller investments in protection of existing public green areas in cities, greening urban public space etc.	
Fighting poverty and supporting, social integration (<i>inclusive cities</i>)	<p>Special efforts are needed to address the social and demographical challenges recognized by the cities and to support equal access to necessary services.</p> <p>Large urban centres will be encouraged to take active role in decreasing high youth unemployment through set of appropriate measures taking into account local labour market needs and complementing the measures designed at national level.</p> <p>Additionally, the actions under ITI will address the lack of capacity for provision of adequate services under the responsibility of cities (e.g. infrastructure and services for elderly persons, homeless, etc). ESI Funds will contribute to the (re)construction of facilities and to development and implementation of new models for provision of services (e.g. development of community based services, etc.).</p>	<p><i>Promoting employment and supporting labour mobility,</i> ESF</p> <p><i>Promoting social inclusion and combating poverty,</i> ERDF, ESF</p>

3.1.3 Sustainable urban development, including the principles for identifying the urban areas where integrated actions for sustainable urban development are to be implemented and an indicative allocation for these actions under the ERDF at national level

Sustainable Urban Development (SUD) represents a holistic approach for using EU Funds to address the challenges of target urban areas selected by each Member State. Sustainable urban development in Croatia will be implemented exclusively through ITIs as described under the heading *Integrated Territorial Investments (ITI)* above.

The target urban areas for Sustainable Urban Development in which integrated actions will be delivered through ITIs will be those with the highest population and appropriate capacity to implement projects. Research on urban development in Croatia finds that an integrated approach will potentially be beneficial in all towns with a population in excess of 35,000. This will be reflected in the preparation of urban development strategies by all such centres and support for their implementation from ESI funds will be provided through the **horizontal approach** outlined above [166]. At initial stage, possibility to apply for implementation of ITI mechanism and to use allocation reserved for sustainable urban development will be offered to the cities with highest population. Additionally, subject to availability of funding, the ITI mechanism in the later stage could also be considered for implementation in other cities.

Competitive procedure will enable selection of best-prepared and most active Urban Authorities to implement ITIs. Criteria for selection of urban areas will be based on main reasons for implementation of ITIs as described above and will include:

- Existence of complex urban development issues, which will be proved by analysis prepared in integrated sustainable urban development strategy in the later stage,
- Effective urban development partnership in place,
- Capacities of Urban Authority and partners for preparation and implementation of strategies through ITI,
- Maturity of projects falling within thematic scope of ITI.

Urban areas selected for support under SUD shall include both the actual administrative territory of the city (e.g. local self-government units) as well as the relevant surrounding urban areas (e.g. urban agglomerations). As the funding available for sustainable urban development is limited, cities will be

invited to focus their investments either spatially (choosing the area with relevant challenges and/or development potential) or thematically (designing the set of interlinked projects).

The thematic scope of ITI (presented in Table 25) has been informed by data and common challenges highlighted by urban authorities and their partners within the research undertaken for the purpose of development of Analytical Study on sustainable urban development [167].

As mentioned in Chapter 1, the **economic crisis has strongly influenced business and employment**, which in all cities resulted with significant and continuously raising number of unemployed persons. In order to enable creation of jobs, local authorities must provide SMEs with necessary infrastructure and access to high quality services. Since the challenges are to some extent concentrated in the largest urban centres and in the same time urban authorities have the capacity to create and improve business support for the wider territory, these investments will be implemented through ITIs. Active role of the cities can be improved only through effective collaboration with other stakeholders, especially research and development as well as business sector representatives. Therefore cities are expected to participate in designing social innovations, which will accelerate economic growth (with possible future application in other areas) and also to participate in designing and implementation of educational programmes to further strengthen capacity of urban administration.

Major emitters of GHG (listed in chapter *Energy consumption, resource efficiency and natural resources*), as well as systems with low energy efficiency are to great extend concentrated in the cities. In order to reduce the emissions from the transport sectors in the biggest urban centres, cities will be offered an opportunity to invest in smaller transport project with emphasis on low-emission transport solution within ITIs. Larger infrastructure projects and integrated urban intelligent transport systems are to be supported outside of ITI scope - on national level. Although the challenges related to **energy efficiency** are relevant for the whole territory and therefore will be addressed through national schemes, cities are expecting the take initiative when it comes to smaller energy efficiency projects complementing the ones implemented on the national level. Regarding other **resource efficiency**, as the former strong industrial centres, large cities today face relicts of their past development. According to data provided by them, the urban authorities estimably own some 110ha of industrial brownfield land in seven biggest settlements [168]. The importance of their revitalisation, especially in the condition of limited and expensive urban space, is recognised by the cities and preparatory activities leading to future projects have been initiated in almost all of them. In the same time, all large urban centres have recognised valuable cultural heritage, which is not used efficiently to facilitate economic development and could be put into more appropriate function.

Cities also declared to be faced with **demographical and social challenges**. Since urban areas are locations where the population is concentrated, even if the rates are not above national averages, absolute numbers of affected persons are much higher. Youth unemployment is, thus, significant challenge for all large urban centres and can be faced more efficiently if initiative from local level is involved. Aging of population has been as evident in the urban centres as in any other part of the country (explained under headline *Specific territorial challenges*). Therefore cities are expected to design appropriate infrastructure and services for elderly persons. The same is applicable to other social challenges (related to e.g. homeless) that can also be solved effectively by city authorities.

Based on the main challenges recognised by the cities and taking into consideration the capacities of urban authorities to implement adequate measures, an extensive set of actions has been designed as presented in Table 25. The exact scope of actions to be implemented under each single ITI will be agreed based on the relevant proposed integrated sustainable urban development strategy and available funding.

3.1.3 [Table: The indicative allocation at national level to integrated actions for sustainable urban development under ERDF \(and ESF\)](#)

Fund	The indicative allocation at national level to integrated actions for sustainable urban	Proportion of the total allocation to the Fund
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	development (EUR)	
ERDF	EUR 275,000,000	6.36%
ESF	EUR 42,000,000	2.77%

3.1.4 The main priority areas for cooperation, under the ESI Funds, taking account, where appropriate, of .1.4 The main priority areas for cooperation, under the ESI Funds, taking account, where appropriate, of macro-regional and sea basin strategies

Croatia will be involved in 13 territorial cooperation programmes in the period 2014–2020, these are:

1. Cross-border cooperation
 - a. Croatia - Italy
 - b. Croatia - Hungary
 - c. Croatia – Slovenia
 - d. IPA CBC Croatia – Serbia
 - e. IPA CBC Croatia – Bosnia and Herzegovina - Montenegro
2. Transnational Cooperation:
 - a. Central Europe
 - b. Danube Programme
 - c. Adriatic – Ionian Programme
 - d. Mediterranean
3. Interregional Cooperation:
 - a. URBACT
 - b. ESPON
 - c. INTERACT
 - d. INTERREG EUROPE

Depending on the area of cooperation, phase of programming and the type of programme, the priorities of Croatia vary. Taking into account that cooperation programmes can choose up to 4 Thematic Objectives, and these TO's are not bound by the Partnership Agreement potentially all TO's can be covered by the ETC and IPA programmes. National priorities are taken into account during programming process. With respect to the CBC programmes and their strong local/regional character, full alignment must be adapted to the specific context and the additionality principle always ensured. As far as the Transnational and interregional cooperation programmes are concerned, Croatian priorities are mainly reflected in thematic objectives 3, 4, 6 & 7 and, where appropriate, TO 11 in principle where programmes coincide with macro-regional strategies. At this stage of programming of territorial cooperation it can be said that TO 4 and 6 are widely shared by the programmes.

Out of 13 programmes, only 4 programmes (up to this point) have established the thematic concentration so no general conclusion can be made.

The connection between Goal 1 and Goal 2 programmes shall be achieved within INTERREG EUROPE programme where two types of cooperation are envisaged (specific Policy Learning Platforms connected to TO's 1, 3, 4, 6 and Interregional Cooperation Projects).

Since MRDEUF is the coordinating body for all ESI Funds, responsible body for programming and implementation of Goal 1 ERDF and CF as well as for the programming and monitoring of all Goal 2 programmes (and Management of all IPA CBC programmes) – close coordination is established and specific attention shall be paid to ensure that there is a complementary use of ETC programmes and vice versa. A further mechanism to accomplish full complementarity and inclusion of all stakeholders is the National Committee described below.

Croatia is part of two macro-regional strategies, European Strategy for Danube Region (EUSDR) and the emerging European Strategy for Adriatic and Ionian Region (EUSAIR). Both strategies are deeply embedded in Croatian strategic orientation and involvement of stakeholders is being taken into

account in the programming and in future implementation process of both Goal 1 and Goal 2 programmes.

In terms of the transnational and interregional programmes the Croatia has set up the National Committee for Coordination of Croatian Participation in Transnational and Interregional Programmes as well as Macro regional Strategies of the EU for the period 2014 – 2020. The role and the function of the National Committee is manifold. This has created a single platform with line ministries responsible for implementing ESI Funds, national representatives in Goal 2 and IPA CBC programmes, regional and local stakeholders, civil society, social and economic partners, priority area coordinators, focal points and the National Contact Point for both macro-regional strategies.

They have been involved so far in the consultation process for transnational and interregional programmes as well as preparation for EUSAIR when defining national priorities. This *platform* will allow for the analysis of the consistency of interventions and the links between the relative strategy and action plan to ESI Funds during implementation.

Goal 1 programmes shall be presented to the Coordination Committee during the consultation phase. In order to set up more coordinated strategic programming. Similar procedures are envisaged for monitoring the implementation of Goal 1 and Goal 2 programmes. In the current state of play concerning Goal 1 programming, all the relevant line ministries in the context of macro-regional strategy priority areas are actively participating in the TWG's. Given the importance of TO's 3, 4 and 6 for the achievement of the MRS goals the Croatian EUSDR Priority area coordinators are in some cases Heads of TWGs, which will in turn ensure close coordination of sector experts working on the Strategy and programming for 2014-2020 period. The Ministry of Environment and Nature Protection that is coordinating PA 6 and Ministry of Crafts and Entrepreneurship responsible for coordination of the PA 8 were given the role of chair in their respective WG (TWG 2 & 3). Moreover, given the relevance of TO 7 for Croatia the Ministry of Transport who is strongly involved in the EUSDR priority area 1 chaired TWG 4. This has provided the institutional framework for alignment of the priorities and key actions identified.

Since the EUSAIR is currently under discussion and consequently no action plan or coordination mechanism has been established, the programming process provided the opportunity to put into place clear alignment between the strategic orientation for ESI Funds and the definition of the priorities of the Republic of Croatia in the currently on-going public consultation. The overall coordination was also achieved through the active contribution of National Committee, Ministry of Foreign and European Affairs and Ministry of Regional Development and EU Funds.

The most important objectives identified for cooperation to achieve the macro-regional strategic goals are:

- I. Creation of trans-European transport corridors by removing bottlenecks in key network infrastructure and the promotion of sustainable transport modes;
- II. Investment in energy infrastructure in order to interconnect the electricity and gas grids and avoid over-dependence on certain providers;
- III. Implementation of the relevant international conventions and action plans against the pollution of marine and land waters and the prevention, preparedness and response to climate change and natural disasters (such as flood risks);
- IV. Strengthening of innovation and competitiveness capacities

Modalities of implementation and specification of actions, aligned with MRS's action plans (once approved) will be identified in the relevant Operational Programmes. Many of these actions correspond already to measures and important projects identified during the preparation of the programming work at national/regional level including the project pipeline. Therefore, a strong framework has been established to allow for the relative strategy and action plan to be linked to ESI Funds during implementation, which shall be monitored also by the National Committee as described above.

In this light, Croatia will analyse how the use of Article 60 of the CPR, Article 87.3. (d) and new tools such as Integrated Territorial Investments or Joint Action Plans, can achieve the MRS objectives through implementation of convergent, complementary, coordinated and joint cooperation actions.

The Goal 1, Goal 2 and MRS coordination system, described above, is functioning efficiently and will be used to support the strategic and operational coordination necessary between the different states in the strategies. Indeed, in this way the policy forming, strategy planning and programming processes shall take into consideration the actions corresponding to national interests that pertain to the macro-regional level framework.

3.1.5 An integrated approach to address the specific needs of geographical areas most affected by poverty or of target groups at highest risk of discrimination or social exclusion, with special regard to marginalised communities, persons with disabilities, long term unemployed and young people not in employment, education or training

Croatia is among the EU countries with the highest at risk of poverty or social exclusion rate (as described in Chapter 1.1., under the heading *Poverty and inequality*). However, aggregate, national level indicators often hide important differences between regions and areas in terms of poverty. The analysis of poverty, its determinants and poverty-reducing interventions therefore requires a focus on poverty information that is further geographically disaggregated. In addition, poverty and inequality are multidimensional (employment status, income, age, education attainment, health, opportunities, ethnic background, etc.) and have multiple territorial determinants (the quality or availability of good housing, geographic, social services availability, infrastructure, etc.). The plotting of such information on maps (**poverty mapping**) is useful to identify information on the spatial (territorial) distribution of poverty and its determinants. Poverty maps at present aren't available for the territory of Croatia, although analysis of regional poverty has been done in the past [169]. The development index also provides useful information on some determinants of poverty at county and local level.

Based on all available information, it can be concluded that **poverty in Croatia has a territorial dimension** and is connected to differentiated development factors such as level of household and personal income, education attainment, level of unemployment, housing quality and circumstances, access to services, quality of social welfare institutions, and opportunity to gain access to living conditions according to basic standards of society.

The highest geographical concentration of factors (measured by national statistics at the county and local level) influencing the share of people at risk of poverty can be found predominantly in rural areas, in the east and the south-east of the country, in areas affected by the Homeland war, hilly-mountain areas in central Croatia and on small islands. There are also a number of degraded smaller towns with rural surroundings and the high share of people at risk of poverty and social exclusion, and this reflects their low economic base and in some cases employment losses due to the fall of traditional industries.

Although the share of people at risk of poverty is in general lower in the four urban agglomerations in Croatia, also there geographical concentration is visible at the level of sub-local deprived social neighbourhoods.

The draft national **Strategy on Combating Poverty and Social Exclusion 2014-2020** defines vulnerable groups, which face the highest risk of poverty and exclusion. To achieve objectives of inclusive economic growth for reducing poverty, the Government has defined objectives to which Government efforts will be directed at the regional level. These are:

- Rising the investment level in deprived areas
- Enhancing access to (community-based) social services
- Improvement of and access to basic communal infrastructure
- Raising education, employment and self-employment levels
- Implementation of measures from the Housing Programme

- Implementation of measures from the RDP 2014-2020.

Poverty mapping will be done to precisely define geographical areas most affected by poverty and degradation in order to understand the underlying determinants of poverty in relation to its spatial distribution. Based on this information, integrated packages will be proposed to tackle the underlying causes of poverty and social exclusion, supported from the ESI Funds. Based on the outcomes of poverty mapping, a decision on selection of small towns and settlements for projects on physical, social and economic regeneration will be made as a territorial-based integrated approach tackling poverty and social exclusion.

It does not, however, follow that nothing can be done in the interim. For example, available information enables the identification of vulnerable groups as social marginalised communities. And even without comprehensive and detailed poverty mapping, based on available parameters it is possible to identify extremes of deprived and degraded small towns and settlements as well as small parts of otherwise prosperous cities.

In the short term and from available information a few small sites affected by physical, social and economic degradation will be identified for pilot regeneration projects on limited integrated territorial interventions with the objective to decrease disadvantages of degraded area through support for their inclusive growth. The integrated regeneration model may be improved and capacity will be developed during the pilot implementation. Later on, the integrated regeneration development model may be implemented in other degraded places to be identified based on the poverty mapping. A particular support will be given to vulnerable groups.

Roma communities are also territorially concentrated and will be tackled also through the integrated regeneration projects with aim to improve their living conditions in order to decrease social inequalities and social exclusion.

Existing EU experience demonstrates that integrated approaches to targeting poverty (whether territorially or social-based) can take a number of years between inception and implementation. In the short-term, in parallel with the completion of poverty mapping and strategic and policy-related work, Croatia will select a few small towns within which Pilot regeneration and revitalisation schemes will be developed. Within these Pilots, interventions may include community facilities, social economy projects, enterprise schemes, infrastructure and social housing. . ERDF interventions will be accompanied with ESF activities aiming to reintegrate beneficiaries such as promotion of social enterprise and employment, education and training, social inclusion activities etc.

An important element of the strategy to counteracting poverty is also **activation of local authorities and partners** in order to better target ESIF interventions. Therefore, counties will be encouraged to propose adequate integrated actions in their County Development Strategies.

In regard to the implementation of the ESI Funds in Croatia for 2014-2020 the largest effects on decrease of poverty in absolute and geographical sense are expected under the OP Efficient Human Resources (co-financed by the ESF) and under OP Competitiveness and Cohesion (co-financed by the ERDF), however also some activities foreseen in the RDP (co-funded by EAFRD) will have impacts, especially in rural areas.

Actions co-financed by the ESF from the OP Efficient Human Resources will directly contribute to the decrease of the scale of the problem and the number of people at risk of poverty. Primarily, they are targeted at different social and vulnerable groups of people, such as the unemployed (especially those long term unemployed and young people), vulnerable groups (disabled, Roma, war veterans, internal migrants, returnees, displaced and former refugees, older people without income, the disadvantaged at risk of early drop-out education), etc.

For some rural and fisheries dependent-areas, EAFRD and EMFF measures will also have impact on the number of people threatened of poverty. This will be achieved through actions aiming at:

- Financing small scale local strategies under the CLLD approach - actions rooted in local needs and financed under this mechanism aimed at reduction of poverty in rural areas shall be coordinated with the use of other ESI Funds through prepared integrated territorial strategies, and
- Support to increase non-rural and non-fisheries related activity contributing to the increase in employment.

The role and possible contribution of the ESI Funds in the implementation of the integrated approach to address specific needs of geographical areas most affected by poverty or of target groups at highest risk of discrimination and social exclusion is given in Table.

3.1.5. Table: The role and contribution of the ESF Funds in the implementation of the integrated approach to address the specific needs of geographical areas most affected by poverty or of target groups at highest risk of discrimination or social exclusion

Specific target group or geographical area	Short descriptions of needs	ESI Funds that will be used (ERDF, ESF, CF, EAFRD, EMFF, YEI)	Main types of actions which are part of the integrated approach	Programme
Poverty areas identified by poverty mapping (<i>Territorial approach</i>)	<p>Specific needs of poverty areas are connected with their geographical features, socio-economic factors and long-term degradation not allowing them to use their potentials</p> <p>Very often this is the reason for big geographical concentration of poverty</p> <p><u>In the short term and from available information a few local sites affected by physical, social and economic degradation will be identified for pilot integrated regeneration projects with possible roll out to other identified degraded areas by the poverty mapping</u></p>	ERDF	<p>Providing support for physical, economic and social regeneration and the revitalisation of deprived and degraded communities that include community facilities, enterprise schemes, infrastructure and social housing (renovating and replacing existing social housing units, converting buildings for housing and other purposes)</p> <p>In connection with the national wide actions - support for self-employment, micro- enterprises and business creation</p> <p>Supporting employment-friendly growth through the development of endogenous potential as part of a territorial strategy for specific areas, including development of specific natural and cultural resources;</p> <p>Supporting local development initiatives and aid for structures providing neighbourhood services to create jobs</p>	OP Competitiveness and Cohesion

		ESF	<p>Improving employability</p> <p>Development of appropriate new models of health and social community based services</p> <p>Access to good quality early-childhood, primary and secondary education, including vocational education and training and lifelong learning</p> <p><u>Promotion of social enterprise and employment</u></p> <p><u>Social inclusion and reintegration activities</u></p>	OP Efficient Human Resources
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Specific target group or geographical area	Short descriptions of needs	ESI Funds that will be used (ERDF, ESF, CF, EAFRD, EMFF, YEI)	Main types of actions which are part of the integrated approach	Programme
Vulnerable groups <i>(Target group approach)</i>	<p>Increase in social and economic integration of specific vulnerable groups especially Roma</p> <p><u>Roma communities are also territorially concentrated and will be tackled also through the integrated regeneration projects with aim to improve their living conditions in order to</u></p>	ESF	<p>Systemic actions to improve the quality of the employment service and efficiency in regard to vulnerable groups</p> <p>Active integration of vulnerable groups into labour market, employment</p> <p>Employment and skills related trainings tailored to the needs of vulnerable groups</p>	OP Efficient Human Resources

	<p><u>decrease social inequalities and social exclusion.</u></p>		<p>Support for social enterprises</p> <p>Improving access to health, educational, cultural and other services for vulnerable groups</p> <p>Extension of the community-level care for the vulnerable groups</p> <p>Active integration of marginalised communities into wider society through education, public information and training initiatives.</p>	
		ERDF	<p>Providing support for physical, economic and social regeneration and the revitalisation of deprived and degraded communities that include community facilities, enterprise schemes, infrastructure and social housing</p> <p>Investing in health and social infrastructure which contributes to reducing inequalities</p> <p>Promoting social inclusion through improved access to social, cultural and recreational services and the transition from institutional to community-based services</p>	OP Competitiveness and Cohesion

4. ARRANGEMENTS TO ENSURE EFFICIENT IMPLEMENTATION OF THE PARTNERSHIP AGREEMENT AND PROGRAMMES -ARTICLE 14(2)(B) CPR

4.1 An assessment of the existing systems for electronic data exchange, and a summary of the actions planned to gradually permit all exchanges of information between beneficiaries and authorities responsible for management and control of programmes to be carried out by electronic data exchange

In view of accumulation, summarising and presenting the financial and statistical data related to the management of the ERDF, ESF and CF programmes in 2007-2013 period, Republic of Croatia has established a single MIS – SCF MIS. All the data, necessary for planning, financial management, accounting, monitoring, supervision, audit and evaluation are collected and stored securely in the SCF MIS as required by the respective regulations of the 2007-2013 period.

SCF MIS has functionalities to support the following business processes: selection of projects, contracting, and verification of expenditure, payments, certification, monitoring and administration. Selection and contracting module provides support to the submission of applications, evaluation of application and contracting (including signing of the addenda to the contracts). Verification and payment module provides support to the submission of applications for reimbursement (including general information, data on physical progress, achievement of the monitoring indicators, incurred expenditure, revenue received, payment forecasts, payments to suppliers), verification of the applications for reimbursement, determining financial corrections including detection of irregularities, registering funds recovered and due for recovery, preparation of payment requests which are transferred to the State Treasury through local accounting systems, registering information on executed payments to the beneficiaries as well as registering expenditure declared or under declaration to the European Commission. Monitoring module provides support to registering information on performed on-the-spot checks and audit visits as well as other information required for control of projects. Reporting module is used for generation of reports based on the information of all modules, which is grouped in required data packages, allowing the users to choose and make reports according to their needs. Certification module is used for creation of Statement of expenditure on each management level. Information on users and their access rights as well as master data are stored within the administration module of SCF MIS.

The CB in co-operation with other bodies of MCS has developed SCF MIS during the years 2012 and 2013. CB is responsible for the support in relation to the overall use of the system, controls all the data, develops new versions of the system and provides consultations, manuals and trainings to users, where required, through the **Network of MIS Administrators coordinated by the CB**. The latter gathers appointed local MIS administrators of the bodies of the MCS responsible to assign the functions in SCF MIS for the users within that respective institution, to provide first level support to the users by way of disseminating information and providing trainings within the institution, to ensure safety and accuracy of the data entered by that respective institution, to collect and verify errors and collect development needs. The latter are reported through the online **MIS Helpdesk administrated by the CB**. Technical-software equipment and its licenses are under the management, use and disposition of the CB which can authorize other legal or natural persons having the right to perform such activities to fulfil certain SCF MIS maintenance, improvement, development or other related activities.

The above structures in terms of responsibility for the management and upgrade of the SCF MIS as well as for the purpose of ensuring its proper use are intended for the 2014-2020 period. For that purpose, the structures will be adapted to include the representatives of the new bodies in the MCS. In terms of the system itself, current version of SCF MIS is intended to be upgraded to the new requirements of the CPR for the 2014-2020 period including (a) changes in the business processes, (b) upgrades for the purpose of processing of wider scope of data and (c) e-cohesion requirements for

reduction of administrative burden for the bodies of the MCS and the beneficiaries, and is intended to be used as the **single MIS for ERDF, ESF and CF programmes in 2014-2020 period**.

The fact that the SCF MIS has been developed at the very end of the 2007-2013 period in parallel to the preparation by the European Commission of the drafts of the acts setting requirements for MIS and e-cohesion modernization in 2014-2020 period enabled CB to adapt the organisational structure of the 2007-2013 SCF MIS as well as structure and workflows of information processed by the system in a way to ensure basis for as fast as possible upgrade of the system for the 2014-2020 period. The example of such approach is introduction of the web-based forms, which enable electronic input of the standardized and structured data by the beneficiaries.

As the first phase of the upgrade, it is intended to perform external audit of the functioning of the current SCF MIS as well as to prepare overall analysis of the required upgrades of the system in line with all requirements of the CPR and respective implementing acts. This phase is to be completed during 2014. During the second phase, it is intended to progressively develop functional specifications and to start development of (additions to the current) modules of the system, primarily to ensure processing of wider scope of data. This phase is intended to start in 2014 but, depending on the required number of additions following the results of the first phase, is potentially to continue in 2015 as well. In the third phase, it is intended to prepare functional specifications and to start development of (additions to the current) modules of the MIS as well as links between the MIS and other systems, to enable (automatic) electronic exchange of information and documents between different databases of state institutions (such as state treasury, tax register, state aid register, company register etc.), thus reducing the efforts by the beneficiaries in obtaining and delivering documents to the bodies of the MCS. In addition to reducing the administrative burden for the beneficiaries, linking MIS system to other systems (including at one point also the systems used for recording the data on EAFRD and EMFF funded projects as well as European Commission ARACHNE system) is expected to also reduce the workload for the bodies of the MCS and enable them to ensure that irregular practices and double financing is avoided. This is the phase to start last in the SCF MIS upgrading process, however the upgrade process in general will be content and time-wise in line with requirements of the CPR and related implementing acts.

While the second phase is to create the structure of the 'data warehouse' of the required data, the third phase is to enable as much as possible of the required data (standardized and structured data when it comes to database log or standardized but not structured data when it comes to documents) to be obtained by the bodies of the MCS, without requiring the same to be provided by the beneficiaries. In parallel, for the part of the data that cannot be obtained by the bodies of the MCS without requiring the same to be provided by the beneficiaries, procedures will be progressively revised and MIS and related systems upgraded to enable exchange of the required data in electronic form.

As announced in Section 2.1, two-way exchange of data in electronic form between the applicants/beneficiaries and bodies of the MCS is intended through the **BP**. The BP is intended to be a sort of gateway between the CWS on one and MIS (and other systems and databases to which the MIS is linked) on the other side. As opposed to currently used web-based platform which allows ERDF, ESF and CF applicants to fill in and validate their e-project application and e-request for reimbursement form on line and submit it in hard copy, BP is intended to allow applicants to fill in, validate and submit their e-project application on-line and, using login password received in the phase of submission of project application, to check the status of their application, exchange with the bodies of the MCS additional information/clarifications during the evaluation as well as during the implementation of the project (requests for reimbursement, requests for addendum etc.). As opposed to currently used e-forms where forms are pre-filled only to the extent of the data already existing in the MIS system, due to link between the BP, MIS and other systems and databases, e-forms are intended to be pre-filled and/or validated also with the data existing in those other systems and databases.

Key implementation information regarding selected RDP operations for funding under EAFRD, including key information on each beneficiary and project, will be recorded and maintained

electronically in the Paying Agency for Agriculture, Fisheries and Rural Development (PAAFRD) for monitoring and evaluation purpose. The Electronic Information System is already set up in PAAFRD, but further customisation is needed in order to ensure proper monitoring and evaluation system according to Common Monitoring and Evaluation System set up jointly by the Commission and the Member States. It is particularly important for monitoring progress towards the established targets of the RDP to ensure relevant data for proper RDP evaluation during implementation and completion of programme. The responsibility for monitoring of RDP is shared between the MoA, acting as Managing Authority, and a Monitoring Committee set up for that purpose. However for ensuring relevant data for monitoring and evaluation purposes, the operational responsibility lies with the PAAFRD.

REFERENCES

1. Croatia's 1,244 islands and islets have a further 4,398 km of coastline.
2. Source: Croatian Bureau of Statistics (CBS)
3. Source: The World Bank list of economies (July 2012); World Bank's classification of countries by income group is based on 2011 data on GNI per capita, and it is calculated using the World Bank Atlas Method.
4. Source: Eurostat (code: tec00114)
5. Source: Croatian Bureau of Statistics and Croatian National Bank
6. Source: Ministry of Tourism
7. Source: Register of Protected Areas (Ministry of Environment and Nature Protection, data as of February 2014)
8. Source: Croatian Mine Action Centre (data as of February 2014)
9. Source: Croatian Mine Action Centre (data as of February 2014)
10. It needs to be noted that the Croatian Government has consistently provided through the budget some 59%, another some 20% has come from public companies, some 6% from the World Bank and later IPA projects and some 15% from donations of which half came from the USA and the remaining from a variety of other donors. Croatia has the capacity and the know-how to demine its territory, (645 deminers, 56 demining machines, 20 demining dogs) but has insufficient financial resources to apply these capacities at full strength. Indeed, the average deminer worked only 9 days a month in 2011 and 12 days in 2012 and 2013.
11. Council recommendations with a view to bringing an end to the situation of an excessive government deficit in Croatia, available at http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/30_edps/126-07_council/2014-01-21_hr_126-7_council_en.pdf
12. Lejour et al. 2008. Economic Effects of the Lisbon Target on Croatia.
13. According to data cited in the Erawatch Country Reports 2012: Croatia, in 2011 the private sectors investments into R&D amounted to 30 Euros per capita, whereas the EU-27 average is almost 10 times more (i.e. 318.3 Euros per capita)
14. Smart Specialisation Strategy Croatia, first draft version 15 January 2014 (unpublished, courtesy of Ministry of Economy)
15. Notable examples of inventions by Croatian inventors include: Parachute "Homo volans" (Faust Vrančić, 1617), prism with variable angle and circular micrometer (Ruđer Bošković, 1785), Torpedo (Ivan Lupis, 1860), AC Induction Motor and Transformer (Nikola Tesla, 1888), Velocimeter (Josip Belušić, 1889), demonstration of Wireless Energy Transmission "Tesla Effect" (Nikola Tesla, 1891), Tesla Coil (Nikola Tesla, 1891), Hydroelectric Power Plant (Vjekoslav pl. Meichsner, 1895), Zeppelin (David Schwartz, 1897), hydraulic rotary diamond drill, (Anton Lučić, 1900), Penkala (Slavoljub Penkala, 1911), Rocket engine and Orbital Space Station (Herman Potočnik, 1928), benzodiazepine derivative tranquilizer Apaurin (Franjo Kajfež, 1964), macrolide antibiotic Azithromycin (Pliva, 1981), MP3 player (Tomislav Uzelac, 1997), Wireless Transmission of Electricity (Marin Soljačić, 2007), Rimac Concept One high-performance electric sports car (Mate Rimac, 2013). Croatia is also home to Nobel prize winners Lavoslav Ružička who won the Nobel Prize in Chemistry in 1939 "for his work on polymethylenes and higher terpenes", Vladimir Prelog who won the Nobel Prize in Chemistry in 1975 "for his research into the stereochemistry of organic molecules and reactions" and Ivo Andrić who won the Nobel Prize in Literature in 1961 "for the epic force with which he has traced themes and depicted human destinies drawn from the history of his country".
16. Technological strength is normally measured through an analysis of patent literature, however these results do not emerge clearly from the patenting data suggesting that the EU has used a composite indicator to identify technology strengths.
17. According to the eCORDA DATA update as of 7 November 2013, Croatia had a total of 359 participants representing 80,05 million Euros in the EU 7th Framework Programme, with particular success in scientific themes ICT, biotechnology, food safety and environment, and top collaborative links with Denmark, United Kingdom and Spain. A more in-depth analysis

leads to the conclusion that Croatia is particularly recognized at the European level for research in areas of medicine / healthcare (translation medicine, bone regeneration, brain repair, certain cancer treatments, anti-body technologies), ICT (robotics and UAVs), geodesic applications (anti-personnel mines, submunitions and UXO), and traffic and transport sciences.

18. Official gazette (OG) 123/03, 105/04, 174/04, 2/07 - the Decision by the Constitutional court, 46/07, 45/09, 63/11, 94/13 and 139/13
19. OG 117/01, 45/09, 92/10, 78/12
20. OG 45/09
21. According to the Croatian Bureau of Statistics (CBS) and Financial Agency (FINA)
22. According to the SME Development Strategy of the Republic of Croatia 2013-2020.
23. In January 2013 the Government launched a high-level Coordination for Economy and Investments, chaired by the deputy Prime Minister in charge of investments as well as EU Funds. The Coordination consists further of 3 working groups (Working Group for Public Investments, Working Group for EU Funds and Working Group for Business Climate and Private Investments). The Working Group for Business Climate and Private Investments is supported by the Agency for Investments and Competitiveness as its main operational body. The main aims are reducing barriers for implementation of private investment projects, identification of key segments for improving business and investment environment, proposing legislative and other solutions that can boost efficiency of public services. In order to deal with the Croatia's competitiveness, a Doing Business (DB) Working Subgroup was formed whose duty is to collect, process and update DB questionnaires and monitors other competitiveness research reports. The proposed reforms are based on DB methodology and the goal is to identify and remove administrative barriers in order to improve business and investment climate in Croatia.
24. According to data available from the Doing Business Report 2014; in terms of the time it takes to open a business, in Croatia it was reported 8 days vs. 12.8 days average in Europe and Central Asia and 11.1 days average for OECD); the number of procedures required to open a business figure stands at 6 for Croatia vs. 5 in Europe and Central Asia and OECD, in terms of costs (% of income per capita) for Croatia this figure is 9.3 vs. 6.7 average in Europe and Central Asia and 3.6 average for OECD.
25. 1. Exploitation field, construction of mining facilities and facilities that are in function of execution of mining operations, storage and permanent disposal of hydrocarbon gases in geological structures; 2. Determining the location of new military locations and military buildings; 3. Interventions in space, which under the special regulations that regulate construction are not considered as construction work; 4. Stage and / or phase construction of buildings; and 5. Construction on the land or building where investor has not resolved property-related rights or for which it is necessary to carry out expropriation.
26. Available online at: <https://ispu.mgipu.hr>
27. Available online at: <https://dozvola.mgipu.hr/>
28. OG 52/2013
29. Doing Business 2014 data for Croatia; available at <http://www.doingbusiness.org/data/exploreeconomies/croatia/~media/giawb/doing%20business/documents/profiles/country/HRV.pdf?ver=2>
30. According to the „2012 Flash Eurobarometer on Entrepreneurship“ in Croatia 54% of respondents say they favour self-employment /want to be entrepreneurs (EU average of 37%), which is a significant increase compared to 2009 when 43% of Croatian citizens (EU: 45%) had a desire to be self-employed, but only 18% think self-employment would be feasible (EU 30%), saying that the current economic climate is not conducive to becoming self-employed; (http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/eurobarometer/index_en.htm)
31. CEE Investment Climate Survey 2012, available online at: http://tschechien.ahk.de/fileadmin/ahk_tschechien/Presse/PM_2012/CEE_Investment_Climate_Survey_2012.pdf
32. Source: CBS

33. Source: Croatian National Bank and CBS
34. Source: Regional Competitiveness Index of Croatia 2010 Study.
35. According to the Broadband coverage in Europe Study 2012.
36. Source: Eurostat's information society statistics
37. Source of data: Ministry of maritime, transport and infrastructure
38. Source: Eurostat's information society statistics
39. Source: Eurostat's information society statistics
40. Source: Eurostat's information society statistics
41. Source: Energy in Croatia 2011, Table 2.11.1
42. Source: Eurostat (code: tsdec360)
43. Source: Eurostat (code: tsdcc310)
44. Source: Energy in Croatia, Table 2.11.1
45. Source: Eurostat (code: t2020_31)
46. National Renewable Energy Action Plan, Table 3., page 15
47. Energy in Croatia 2011, page 9
48. Data on ODEX taken from the Energy in Croatia 2012, chapter 9, page 211
49. The Draft Report of December 2013 notes for Croatia: a) an increase in the temperatures with highest increase in the average maximal temperature (0.3-0.4°C per 10-years period) followed by the increase in the average and average minimal temperatures (0.2-0.3°C per 10-years period); this increase affects more continental than coastal part of Croatia; b) more frequent periods of extreme heat and cold with the length of warm periods being increased for 4-6 days while the length of the cold period has decreased for up to 2 days with no significant regional differences; c) changes in the level of precipitation with a decrease from 2% to 7% (per 10-years period), particularly in the mountain and coastal area and d) rhythm of dry and wet periods with biggest change in terms of dry period increase (in average 5 to 10 days per 10 years period) in the autumns.
50. Source: Ministry of Finance
51. These three risks are identified as priority ones also in the national "Natural and technological hazard assessment"; National Protection and Rescue Directorate, 2013
52. Information for the floods and irrigation are taken from the Water management Strategy
53. Croatian Environmental Agency „Okoliš na dlanu I – 2013“
54. Source: Eurostat (code: tsdpc_240) Data for 2012
55. Croatia: Operational Programme Environment 2007-2013
56. All data in about waste management taken from AZO „Municipal waste and waste landfills“, September 2012 (unless otherwise stated)
57. Implementation plan for Water Directives
58. Implementation plan for Water Directives
59. Description of impacts of the agriculture on the nature, biodiversity and environment in general is provided in Chapter.
60. Register of Protected Areas, MENP (December 2013)
61. Nature Protection Act defines 9 categories of spatial protection: national park, nature park, regional park, strict reserve, special reserve, natural monument, protected landscape, park-forest and horticultural monument
62. www.natura2000.hr
63. Currently cultural tourism has an 8% share in the overall tourism activities (Source: Cultural Heritage Strategy, 2011) while the similar data is not available for the natural heritage. However the Croatian Tourism Strategy from 2013 highlights that existing potential is extremely poorly used.
64. Strategy for Management of State Property 2013-2017

65. 62 km per 100,000 inhabitants, as against 42 km per 100,000 inhabitants in the EU-27
66. The Croatian railway network comprises in total 2,722 km of track of which 254 km (9.3%) is double track and 2,468 (90.7%) km is single track; 985 km is electrified.
67. Source: Eurostat
68. See **Appendix 4** for a summary of missing links and bottlenecks on the multimodal TEN-T Core Network within the Core Network Corridors in Croatia.
69. Source: Croatian Bureau of Statistics, 2011
70. Data were collected in road database of Croatian Roads Ltd and harmonized with International Roughness Index (IRI).
71. The total network density is 14 km per 1,000 km²
72. Source: Eurostat (code: tsdec450)
73. Source: Eurostat (code: tsdec420)
74. Source: Eurostat (code: tsdsc3030)
75. Calculated based on Eurostat data,
<http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>
76. CES, Yearbook 2012, http://www.hzz.hr/UserDocImages/HZZ_GODISNJAK_2012.pdf
77. The vulnerable groups in Croatia are the ones defined in the Strategy for combating poverty and social exclusion in Republic of Croatia (2014 – 2020). The detailed list of these groups is provided in the OP Efficient Human Resources.
78. Source: Eurostat (code: tsdec460)
79. Source: Eurostat (code: yth_empl_100)
80. Source: Eurostat
81. Source: Eurostat (code: tsdec420)
82. Calculated based on Eurostat data
http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfso_10fposorg&lang=en
83. PISA (2012)
84. Tesla u školi, 2008; ICTEdu, 2011; Survey of Schools: ICT in Education - A study prepared for the European Commission 2013
85. Source: Eurostat
86. The benchmark on early childhood education; Council conclusions of 12 May 2009 on a strategic framework for European cooperation in education and training ('ET 2020'), (2009/C 119/02)
87. Source: Eurostat
88. Eurydice Report, National Student Fee and Support Systems, 2011/12
89. [http://www.vlada.hr/hr/naslovnica/sjednice_i_odluke_vlade_rh/2014/148_sjednica_vlade_republike_hrvatske/148_3/\(view_online\)/1%23document-preview](http://www.vlada.hr/hr/naslovnica/sjednice_i_odluke_vlade_rh/2014/148_sjednica_vlade_republike_hrvatske/148_3/(view_online)/1%23document-preview)
90. http://www.undp.hr/upload/file/206/103164/FILENAME/Socijalne_usluge_po_zupanijama_i_prilozi.pdf
91. http://www.mspm.hr/djelokrug_aktivnosti/socijalna_skrb/reforma_sustava_socijalne_skrbi
92. Expected to be completed by the end of 2014
93. See under the heading Specific territorial challenges
94. Anti-Discrimination Act (OJ 85/08, 112/12) recognizes 17 discrimination basis
95. Joint Regional Programme on Durable Solutions for Refugees and Displaced Persons: Framework Programme, November 2011. Regional Housing Programme: Country Feasibility Report: Croatia (September 2013).
96. Total health expenditure is the sum of public and private health expenditure
97. Source: The World Bank
98. Source: The World Bank
99. Source: Croatian Public Health Institute

100. Source: Croatian Public Health Institute
101. The organizational structure of the Ministry of Justice is more complex than other ministries since the standard structure of administrative organizations and related internal organizational units include criminal authorities such as prisons, jails, correctional institutes and centres and operates within the whole justice system. It is composed of courts, the State Attorney's Office, the Judicial Academy, the State Judicial Council and the State Attorney's Council. Ministry of Justice is responsible for the functioning of the judicial system as a whole - the organizational and legislative part.
102. 18 municipal courts (15 of which have the criminal jurisdiction), 15 misdemeanour courts, 15 municipal state attorney's offices. In total 7,671 employees are working in the Municipal and Misdemeanour Courts and Municipal State Attorney's Offices, out of which 1,649 are judicial officials.
103. Source: Central Bureau of Statistics
104. Research by the Croatian Bureau for Statistics for 2010 (FSS)
105. Source: CI-17; Annex 2 - Table 1
106. Source: Central Bureau of Statistics
107. Source: Central Bureau of Statistics
108. Source: Central Bureau of Statistics
109. Source: Central Bureau of Statistics
110. Source: CI-23; Annex - Table 3
111. Inventory of greenhouse gases (NIR 2013) published by the Agency for Environmental Protection
112. Selected indicators of environmental situation in the Republic of Croatia; CEA 2012.
113. The structure of enterprises, average in 2008 - 2010; Source: CBS Processing: Croatian Chamber of Economy Department for Agriculture, Food Industry and Forestry, 2012.
114. Verižni indeksi industrijske proizvodnje, Izvor: DZS, Obrada: HGK Sektor za poljoprivredu, prehrambenu industriju i šumarstvo, 2012.
115. Eurostat (code: sbs_na_ind_r2)
116. The importance of certain sectors of production in the food processing industry, average in 2008 – 2010 period; Source: CBS Processing: Croatian Chamber of Economy Department for Agriculture, Food Industry and Forestry, 2012
117. www.fsc.hr
118. Assessment according to the Ordinance on forest management, Official Gazette Nos 111/06 and 141/08
119. Forest Management Area Plan of the Republic of Croatia 2006 - 2015 (345 445 ha or 60% privately owned forests do not have Forest Management Area Plans)
120. Register of forest fires (80% of the forest fires occur in the karst area of the Republic of Croatia, in which an average of 9,000 ha burn annually)
121. OG 130/09
122. Central Bureau of Statistics (7% of the total trade in the Republic of Croatia, one third of the total number of employees in the processing industries, EUR 186 million or 0.4% share of GDP in 2009)
123. Source: Central Bureau of Statistics (1.331)
124. Source: Central Bureau of Statistics
125. Source: MAGRI, DoF
126. Source: MAGRI, DoF
127. Source: MAGRI, DoF
128. Source: MAGRI, DoF
129. Source: Eurostat

130. Source: Eurostat
131. With aim of providing adequate level of support to the regional and local units, which are underdeveloped, in 2009 Croatia introduced the single system of assessment, classification and monitoring of self-government units according to the development level. The system is based on calculation of a composite indicator – the development index, comprised of basic socio-economic indicators including the unemployment rate, income per capita, own source revenues per capita in county/local units, changes in population growth and level of education.
132. City of Zagreb with own source revenue of 4.7 billion HRK is not comparable neither to local nor to regional units, due to its specific status
133. Without revenues from the sale of non-financial assets.
134. Number refers to the level of self-government units in which city is situated (population in 2011)
135. <http://www.azo.hr/OdabraniPokazateljiStanjaOkolisa01>
136. www.uniri.hr
137. <http://www.zavod.pgz.hr/docs/zzpuHR/documents/291/1.0/Original.pdf>
138. Aging of population has been as severe in the agglomerations as in the other parts of Croatia (Appendix 2)
139. Agriculture, forestry and fishery statistics; Eurostat Pocketbooks, 2013 edition
140. The RDP 2014-2020 ensures a uniform application of the rural development policy throughout the rural territory of the Republic of Croatia, however, for smooth utilisation of ESI funds, particularly EAFRD, definition of rural area is set under RDP 2014-2020 as follows: For the purposes of implementing rural development measures, all local self-government units which belong to primarily rural or intermediate counties (NUTS3), identified by using the original OECD methodology, shall be deemed rural or intermediate areas of the Republic of Croatia. The following units shall be considered as exceptions: the City of Zagreb, the City of Split, the City of Rijeka, and the City of Osijek. Due to the large size of the capital cities of the aforementioned units, all settlements that are under the administrative jurisdiction of those cities shall be deemed rural or intermediate, except the capital cities themselves (Zagreb, Split, Rijeka, and Osijek). They shall be deemed cities situated in urban clusters. The rural and intermediate areas of Croatia classified in this manner include villages, intermediate settlements, small and medium-sized towns, or areas of a complex social and economic structure and mosaic landscape with many other types of activities and uses in addition to agricultural production and forestry. A total of 3,217,117 inhabitants (75.08% of total population) live on 56,164 km² of rural and intermediate areas (99.24% of total territory).
141. 132,744 if the peninsula Pelješac is included
142. Šipan, Koločep, Lopud, Prvić, Unije, Susak and Ilovik
143. Source: Seker, M. (2013) – Background paper for the technical assistance on the Western Balkans R&D for Innovation Strategy
144. According the the eGovernment Country Factsheets data, 2012
145. Energy Strategy of the Republic of Croatia (OG No 130/09)
146. National Energy Efficiency Action Plan sets the target for 2020 of 22.76 PJ; only the figure for 2016 is divided per sectoral targets but it can be presumed that the share of individual sectors will remain relatively similar
147. On 14 October 2013, the EC has adopted a list of 248 key energy infrastructure projects eligible for support from the CEF. For a project to be included in the list, it has to have significant benefits for at least two Member States; contribute to market integration and further competition; enhance security of supply, and reduce CO₂ emissions. The list of PCIs

- will be updated every two years; available on-line on
http://ec.europa.eu/energy/infrastructure/pci/doc/2013_pci_projects_country.pdf
148. The term vulnerable groups, throughout the PA implies groups stated here and defined in Strategy for combating poverty and social exclusion in Republic of Croatia (2014-2020)
 149. http://ec.europa.eu/regional_policy/what/future/pdf/preparation/da_code%20of%20conduct_en.pdf
 150. OG 102/12
 151. <http://www.mrrfeu.hr/UserDocsImages/EU%20fondovi/Popis%20%C4%8Dlanova%20Tema%20tskih%20radnih%20skupina.pdf>
 152. Following the completion of the programming exercise, it is intended that the Committee (supported by the work of TWGs) is used as a permanent coordination mechanism in the form of National Coordinating Committee (NCC), ensuring overall coordination and monitoring of implementation of ESI funds (mainstream operational programmes under the ERDF, ESF, CF, EMFF and EARDF and cooperation programmes under the IPA and ERDF) and other Union and relevant national funding instruments.
 153. OG 149/09
 154. The Priority Action Plan of UNEP/MAP plays an important role in supporting ICZM by Mediterranean countries implementing the ICZM Protocol of the Barcelona Convention
 155. Since 2008, Switzerland has been participating in various projects designed to reduce the economic and social disparities in an enlarged EU, with CHF 1.257 billion. The legal basis for Switzerland's contribution to EU enlargement process can be found in the Federal Act on Cooperation with the States of Eastern Europe (24 March 2006), which was approved by the Swiss population on 26 November 2006. In June 2007, Swiss Parliament approved a framework credit of CHF 1 billion for the 10 new Member States that joined the EU in 2004. In December 2009, it approved a second framework credit of CHF 257 million for Bulgaria and Romania, which joined in 2007. Switzerland has concluded a bilateral framework agreement with each partner state independently of the EU but in consultation with the partner countries. The distribution of the Enlargement Contribution among the 12 partner states is based on a distribution formula established on the basis of population size and per capita income.
 156. Investment for growth and jobs goal, European territorial cooperation with IPA countries goal, European territorial cooperation with member states goal, Common agricultural policy goal, Common fisheries policy goal
 157. OG 30/09
 158. OG 149/09, Article 21
 159. OG 40/01
 160. Strategic WLA, covering the period from 2014 to 2016 which includes all the tasks related to 2007-2013 and 2014-2020 perspective, is already developed by most of the MCS bodies within the 2007-2013 compliance assessment exercise
 161. Report from the Commission to the Council and the European parliament, EU Anti-Corruption Report, COM(2014) 38 final
 162. As explained in Specific Territorial Challenges, current county development strategies are valid until the end of 2014 and new ones are under preparation during 2014 and 2015
 163. In case of areas such as the ones facing demographical challenges, an additional set of integrated actions may be defined in national programmes and/or County Development Strategies. In order to reduce regional disparities Croatia will focus appropriate measures and activities to the areas that are lagging (e.g. assisted areas, rural areas, deprived urban neighbourhoods) or facing some specific challenges. A subset of actions will highly depend on natural and/or social characteristics at local levels (e.g. island connectivity and economic

- development, while for war-torn areas integrated economic development actions, including housing and social integration issues will play a significant role)
164. Community-led local development (CLLD) is a territorial mechanism involving partners at local level in programme delivery on a bottom-up basis. Decision-making and implementation are delegated to a local partnership of public, private and civil society actors as exemplified by the LEADER approach to rural development
 165. Regulation (EC) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006
 166. Compliance of projects with integrated territorial strategies will be requested, where appropriate, not only within actions related to sustainable urban development
 167. Prepared within contract IPA2007/HR/16IPO/001-050401 implemented in period September, 2013-July, 2014
 168. Estimation of total industrial brownfield is several times higher and part of it is owned by other public authorities
 169. <http://www.eizg.hr/Data/Doc/EIZ%202006%20Conference%20Proceedings-Nestic-Vecchi.pdf>

LIST OF ABBREVIATIONS

ALMP	Active labour market policy
BP	Beneficiaries portal
CA	Competent authority
CAP	Common Agricultural Policy
CB	Coordinating body
CBC	Cross Boarder Cooperation
CBS	Croatian Bureau of Statistics
CEB	Certifying body
CEF	Connecting Europe Facility
CEFTA	Central European Free Trade Association
CES	Croatian Employment Service
CF	Cohesion Fund
CFP	Common Fisheries Policy
CLLD	Community-led local development
CNDP	Complementary National Direct Payments
CNR	Common national rules
COSME	EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs)
CPI	Corruption Perception Index
CPR	Common provisions regulation - Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006
CSO	Civil society organisation
DSL	Digital subscribers loop
DSP	Department for Strategic Planning

EBRD	European Bank for Reconstruction and Development
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
EE	Energy efficiency
EEA	European Economic Area
EIB	European Investment Bank
EMFF	European Maritime and Fisheries Fund
ERA	European Research Area
ERDF	European Regional Development Fund
ESFRI	European Strategy Forum on Research Infrastructures
ESI Funds	European Structural and Investment Funds
ESIF	European Structural and Investment Funds
ESF	European Social Fund
ETC	European Territorial Cooperation
EU	European Union
EU-10	European Union 10 Member States
EU-27	European Union of 27 Member States
EU-28	European Union of 28 Member States
EUSDR	European Union Strategy for the Danube Region
EUSAIR	European Union Strategy for the Adriatic and Ionian Region
EWG	Evaluation working group
FEAD	Fund for European Aid to the Most Deprived
FLAG	Fisheries local action group
FTE	Full time equivalent
FTTH	Fibre to the home
GCI	Global Competitiveness Index of the World Economic Forum
GHG	Greenhouse gas
GDP	Gross domestic product
GNI	Gross national income
HEI	Higher education institution
HR	Croatia
IB	Intermediate body
IASC	Integrated Administration and Control System
ICT	Information and communication technology
ICZM	International Coastal Zone Management
IPA	Instrument for Pre-Accession Assistance
ISCED	International Standard Classification for Education
ITI	Integrated territorial investment
JMO	<i>hr. Jedinstveni model obrazovanja</i>
LAG	Local action group
LEADER	<i>fr. Liaison Entre Actions de Développement de l'Économie Rurale</i> (Links between the rural economy and development actions)
LIFE	EU's financial instrument supporting environmental and nature conservation projects
LLL	Life-long learning
LLP	Lifelong Learning Programme
MA	managing Authority
MC	Monitoring Committee
MCS	Management and Control System
MoA	Ministry of Agriculture
MoE	Ministry of Economy
MoF	Ministry of Finance
MoU	Memorandum of understanding
MRDEUF	Ministry of Regional Development and EU Funds
MLPS	Ministry of Labour and Pension System
MENP	Ministry of Environment and Nature Protection
MFEA	Ministry of Foreign and European Affairs

MSES	Ministry of Science, Education and Sport
MSP	Maritime Spatial Planning
MoMATI	Ministry of Maritime Affairs, Transport and Infrastructure
NC	National Committee for Coordination of Croatian Participation in Transnational and Interregional Programmes as well as macro-regional strategies
NCC	National Coordinating Committee
NCP	National Contact Point
NGA	Next generation access
NGO	Non-government organisation
NIS	National innovation system
NUTS	<i>fr. Nomenclature des unités territoriales statistiques</i> (Nomenclature of the statistical territorial units)
OER	Open education resources
OP	Operational Programme
PA	Partnership Agreement
PAAFRD	Paying Agency for Agriculture, Fisheries and Rural Development
PON	Publicity officer network
PRO	Public research organisation
R&D	Research and development
RDI	Research, development and innovation
RDP	Rural Development Programme of the Republic of Croatia 2014-2020
RES	Renewable energy sources
SHPP	Small hydro power plant
SME	Small and medium-size enterprises
SO	Standard output
STC	Sector for Territorial Cooperation
STEM	Science, technology, engineering and mathematics
TEN-T	Trans-European Network
TO	Thematic objective
TWG	Thematic Working Group
UAV	Unmanned aerial vehicles
UXO	Unexploded ordnance (i.e. explosive weapons such as bombs, bullets, shells, grenades, land mines, naval mines etc.)
VET	Vocational educational training
WGCA	Working Group for Compliance Assessment
WGEUF	Working Group for EU Funds
YEI	Youth Employment Initiative
YGS	Youth Guarantee Scheme

UNITS OF MEASUREMENT

%	Percentage
EUR	Euro
GWh	Gig watt-hour
ha	Hectares
HRK	Croatian Kuna
kg	Kilogram
kgoe	Kilogram of oil equivalent
km ²	Square kilometre
kWh	Kilowatt hour
passenger-km	Passenger-kilometre
p.e.	population equivalent
PPS	Purchasing power standard
toe	Tonne of oil equivalent

tonne-km
y

Tonne-kilometre
Year

APPENDIX 1. BASIC SOCIO-ECONOMIC INDICATORS OF CROATIAN COUNTIES

County	Surface (km ²)	Population in 2011	Population density in 2011 (per km ²) ⁵²	GDP per capita (PPS) in 2010 ⁵³ (EU-27 = 100)	Own source revenues per capita – average 2010-2012 (HRK)	Unemployment – average 2010-2012 (%) ⁵⁴	Population change 2010/2001 (2001=100) ⁵⁵	Education level (%) ⁵⁶	Group according to Development index
Zagreb	3,085	317,606	103.0	42	2,826	11.2	106.5	76.82	III
Krapina-Zagorje	1,229	132,892	108.1	36	1,772	12.9	95.0	69.67	I
Sisak-Moslavina	4,468	172,439	38.6	49	2,336	24.1	90.8	72.31	I
Karlovac	3,626	128,899	35.5	43	2,167	20.1	91.6	74.26	I
Varaždin	1,262	175,951	139.4	48	2,079	12.5	97.2	74.46	II
Koprivnica-Križevci	1,748	115,584	66.1	47	2,650	15.4	95.3	62.49	I
Bjelovar-Bilogora	2,640	119,764	45.4	39	1,689	23.0	92.4	65.52	I
Primorje-Gorski kotar	3,588	296,195	82.6	72	4,757	12.7	99.3	84.97	IV
Lika-Senj	5,353	50,927	9.5	48	2,702	16.3	90.7	73.73	I
Virovitica-Podravina	2,024	84,836	41.9	34	1,599	25.9	92.2	63.31	I
Požega-Slavonia	1,823	78,034	42.8	35	1,368	19.5	93.9	67.92	I
Slavonski Brod-Posavina	2,030	158,575	78.1	31	1,381	25.6	96.7	69.75	I
Zadar	3,664	170,017	46.4	48	3,174	15.1	109.1	77.97	III
Osijek-Baranja	4,154	305,032	73.4		2,111	23.4	95.9	73.08	I
Šibenik-Knin	2,984	109,375	36.7	46	2,623	17.3	99.5	78.96	II
Vukovar-Sirmium	2,368	179,521	75.8	32	1,441	25.4	95.1	69.31	I
Split-Dalmatia	4,583	454,798	99.2	47	3,090	19.5	104.2	83.09	II
Istria	2,813	208,055	74.0	76	4,884	7.8	104.1	80.78	IV
Dubrovnik-Neretva	1,781	122,568	68.8	61	3,499	13.3	104.0	83.74	III
Međimurje	729	113,804	156.1	46	1,725	14.0	99.6	71.20	I
City of Zagreb	641	790,017	1,231.8	109	5,997	10.6	101.9	86.93	IV
Croatia	56,594	4,284,889	75.7	59	3,310	16.0	99.4	77.7	n/a

⁵² CBS – www.dzs.hr

⁵³ EUROSTAT - <http://epp.eurostat.ec.europa.eu>

⁵⁴ MRDEUF – www.mrrfeu.hr – Development index calculation

⁵⁵ MRDEUF – www.mrrfeu.hr – Development index calculation

⁵⁶ MRDEUF – www.mrrfeu.hr – Development index calculation; education level refers to population from 16 to 65 years with at least secondary education

APPENDIX 2: BASIC SOCIO-ECONOMIC INDICATORS OF THE LARGEST SELF-GOVERNMENT UNITS (CITIES) IN CROATIA

City	Population of local-self-government unit in 2011	Population in 2011 (% share in total Croatia)	Population density in 2011 (per km ²) ⁵⁷	Population change 2010/2001 (2001=100) ⁵⁸	Average age (years) ⁵⁹	Share in number of employed persons in 2012 (%)	Share in total income in 2012 (%)	Income per capita - average 2010-2012 (HRK)	Own source revenues per capita – average 2010-2012 (HRK)	Unemployment – average 2010-2012 (%) ⁶⁰	Education level (%) ⁶¹	Group according to Development index – local level	Group according to Development index for region
Zagreb	790,017	18.4	1,231.8	101.9	41.6	20.6	26.8	42,175	5,997	10.6	86.9	V	IV
Split	178,102	4.2	2,235.2	95.0	41.7	4.1	4.6	32,069	3,319	19.3	88.2	IV	II
Rijeka	128,627	3.0	2,968.5	89.0	44.5	3.3	3.7	35,631	4,153	14.6	86.0	IV	IV
Osijek	108,048	2.5	617.5	95.8	41.9	2.6	2.8	31,725	2,678	17.6	83.3	IV	I
Zadar	75,062	1.8	387.2	104.8	40.8	1.7	1.8	29,170	3,157	14.2	86.1	IV	III
Velika Gorica	63,517	1.5	193.8	105.2	39.9	1.6	1.7	32,763	2,415	9.2	82.1	IV	III
Slavonski Brod	59,141	1.4	1,087.8	97.3	40.8	1.2	1.2	24,046	1,645	21.3	79.6	III	I
Pula	57,460	1.3	1,073.02	99.8	43.3	1.6	1.6	34,422	3,684	9.8	84.5	IV	IV
Karlovac	55,705	1.3	138.6	93.4	43.8	1.3	1.4	31,482	2,317	16.2	80.8	III	I
Sisak	47,768	1.1	113.3	90.4	43.5	1.1	1.2	32,426	3,065	20.9	81.0	III	I
Varaždin	46,946	1.1	789.7	97.0	42.5	1.2	1.3	35,471	3,384	11.2	86.9	IV	II
Šibenik	46,332	1.1	114.4	96.4	43.4	1.1	1.2	30,647	2,556	13.1	83.7	IV	II
Dubrovnik	42,615	1.0	298.1	100.8	42.4	1.1	1.2	34,690	5,093	10.0	88.1	V	III
Bjelovar	40,276	0.9	214.5	96.7	41.7	0.9	0.9	27,553	1,959	18.9	75.4	III	I
Kaštela	38,667	0.9	668.3	124.3	38.5	0.9	0.7	22,496	2,040	22.0	82.0	III	II
Samobor	37,633	0.9	150.1	105.5	41.1	1.0	1.2	37,742	3,440	9.5	81.0	IV	III
Vinkovci	35,312	0.8	357.5	101.3	39.3	0.8	0.8	25,879	1,869	19.6	80.3	III	I
Croatia	4,284,889	100.0	75.7	99.4	41.7	100.0	100.0	28,759	2,969	16.0	77.7	n/a	n/a

⁵⁷ CBS – www.dzs.hr

⁵⁸ MRDEUF – www.mrrfeuf.hr – Development index calculation

⁵⁹ CBS – www.dzs.hr

⁶⁰ MRDEUF – www.mrrfeuf.hr – Development index calculation

⁶¹ MRDEUF – www.mrrfeuf.hr – Development index calculation; education level refers to population from 16 to 65 years with at least secondary education

APPENDIX 3: RENEWABLE ENERGY TARGETS PER SECTOR

		2011 (MW)	2020 (MW)
RES for production of electricity	Hydro power	2139	2456
	- Small HP	31	100
	- Large HP	2108	2356
	Geothermal	0	10
	Solar	6	52
	Wind	125	400
	Biomass	5	125
	- Biogas	2.2	45
	Total	2275	3043
		2011 (ktoe)	2020 (ktoe)
RES for cooling / heating	Sun	6.7	97.3
	Biomass	337.3	396.8
	Geothermal	6.2	15.7
	Heat pumps	21.4	95.6
	Total	371.6	605.4
		2011 (ktoe)	2020 (ktoe)
RES for transport	Bio ethanol	0	16.3
	Bio diesel	17.4	121.6
	Electric energy	9.5	18.5
	Other (biogas, waste oil)	0	5.1
	Total	26.9	161.6

Source: National Renewable Energy Action Plan by 2020

[APPENDIX 4: TEN-T CORE NETWORK IN CROATIA \(POSSIBLE PROJECTS ELIGIBLE UNDER CEF\)](#)

Mediterranean Corridor

Rijeka – Zagreb – Budapest	Rail	New track and second track between Rijeka and the Hungarian border
Rijeka	Maritime port	Infrastructure upgrading and development, development of multimodal platforms and interconnections
Ljubljana – Zagreb	Rail	

Rhine – Danube Corridor

Slavonski Brod	Inland port	
Sava	Inland waterway	Removal of bottlenecks, including cross-border bridge
Danube	Inland waterway	Removal of bottlenecks, inland waterway ports, multimodal interconnections
Dubrovnik (boarder with ME)	Road	Cross-boarder
Zagreb	Rail	Removal of bottleneck

Other

Node name	Airport	Maritime port	Inland port	Rail Road terminal
Dubrovnik	Comprehensive	Comprehensive		
Osijek	Comprehensive		Comprehensive	
Ploče		Comprehensive		
Pula	Comprehensive	Comprehensive		
Rijeka	Comprehensive	Core		
Šibenik		Comprehensive		
Sisak			Comprehensive	
Slavonski Brod			Core	
Split	Comprehensive	Comprehensive		
Vukovar			Core	
Zadar	Comprehensive	Comprehensive		
Zagreb	Core			Core

[APPENDIX 5. EXPLANATION OF THE METHODOLOGY APPLIED IN THE CALCULATIONS FOR ADDITIONALITY \(CHAPTER 2.2\)](#)

Up to 2017, the projections from the Croatian Convergence Programme 2014 were used for GDP in current prices for the ESA category P.51 (Gross fixed capital) for the consolidated general government.

For the years 2018 - 2020, GDP at current prices was calculated by applying the rate of real growth of 1.5% and the deflator of 2.0% in all years.

P.51 for the years 2018-2020 were calculated as a constant share of GDP calculated in the above manner (share from 2017 i.e. 2.2%).

